H. J. Heinz Company

Annual Report 1975

april

## *This Company: Its Goal, Its Scope...*

*"This is my goal—to bring home-cooking standards into canned foods, making them so altogether wholesome and delicious and at the same time so reasonable, that people everywhere will enjoy them in abundance."*

*Those words were set down in the 19th century by Henry J. Heinz, founder of this company.*

*The goal has altered not at all. Heinz, now well into its second century, still concentrates exclusively upon the business of providing wholesome, delicious processed foods, reasonable in price, to be enjoyed in abundance.*

*It is the scope that has grown so dramatically—a global spread of companies with factories in 35 locations around the world—more than 1,250 products ranged along the grocery shelves of more than 150 countries and territories—trains, trucks and ships hauling an endless supply of raw ingredients from land and sea to busy production lines.*

## *...And Its People*

*There are, too, the people. Heinz provides employment for more than 30,000 of them.*

*Take the woman on our cover. She is one of many who have found gainful occupation planting tomatoes for Heinz Sagima in the fields of Morocco's Sebou River basin. The pattern is generations old: after the men have prepared the soil, the matrons pass the seedlings to their younger sisters, who set them ceremoniously one by one in place.*

*Others appear in the pages that follow, competent people whose individual efforts, taken in total, have helped to advance the goal set forth by the company's founder. They are the best in the business. They are proud of the work they do. We are as proud of them.*

# *H. J. Heinz Company Annual Report 1975*



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## *Annual Meeting*

The annual meeting of company shareholders will be held at 2 p.m. on Wednesday, September 10, 1975 at World Headquarters in Pittsburgh. Formal notice of the meeting and proxy materials will be sent to shareholders about August 4, 1975.

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Heinz

# *Highlights*

(In thousands of dollars except number of shares and shareholders and per share data)

| | 1975 | 1974 | % Increase |
|---|---|---|---|
| Net sales | $ 1,662,701 | $ 1,438,251 | 15.6 |
| Income before extraordinary item | $ 66,567* | $ 55,520 | 19.9** |
| Extraordinary item | — | 8,800 | — |
| Net income | 66,567 | 64,320 | 3.5 |
| Per common share amounts: | | | |
| Income before extraordinary item | $ 4.40* | $ 3.67 | 19.9** |
| Extraordinary item | — | .59 | — |
| Net income | 4.40 | 4.26 | 3.3 |
| Dividends | 1.16 | 1.09 | 6.4 |
| Book value | 33.06 | 29.42 | 12.4 |
| Additions to property, plant and equipment | $ 57,219 | $ 44,096 | 29.8 |
| Depreciation expense | 25,090 | 22,535 | 11.3 |
| Net property, plant and equipment | 303,912 | 276,701 | 9.8 |
| Working capital | 378,418 | 323,904 | 16.8 |
| Shareholders' equity | $ 502,796 | $ 447,434 | 12.4 |
| Number of common shareholders | 11,907 | 10,492 | 13.5 |
| Average number of common shares outstanding | 15,088,743 | 15,069,813 | — |

*Income before extraordinary item includes $2,724,000, after tax, or 18 cents per share, representing a nonrecurring gain arising from settlement of insurance claims in connection with fire losses of a subsidiary. This gain was included in fourth-quarter results of the current fiscal year.

**The increase in income before extraordinary item and the related earnings per common share, excluding the nonrecurring gain, was 15.0 percent in both cases.

# To Our Shareholders

Another year has passed, and we prepare again to tell a story that has become more than familiar. We take comfort from a paragraph that was written in 1891 by the senior Oliver Wendell Holmes:

"What if one does say the same things—of course in a little different form each time—over and over? If he has anything to say worth saying, that is just what he ought to do."

We think we have something worth saying. H. J. Heinz Company sales and earnings from operations rose again in fiscal 1975, for the 12th year in a row. It would have been a good showing under normal circumstances. It was even more impressive in the light of circumstances far from normal.

Consider the news that made headlines in the year just past.

A combination of recession and inflation seriously reduced consumer purchasing power. The public changed its buying habits, requiring agile response in sensitive markets. Industry was hard pressed to squeeze out profits in the face of rising outlays for just about everything it needed to keep running.

Overseas, restrictive price controls in some countries made it impossible to recover the higher cost of labor and raw materials. Complex and time-consuming pricing regulations imposed an additional burden.

Catastrophes of nature cut supplies in many areas of a world that was already undergoing a battle for scarce commodities. Most of the raw products that escaped or survived these catastrophes emerged with new and higher price tags.

What came to be known as "the big overhang"—a heavy surplus of inventories, in some cases aggravated by inaccurate government estimates—reduced the profitability of many companies.

A shortage of available capital threatened companies that required major investments and added working funds. Those who did find access to credit had to pay dearly for it.

Energy supplies were often scarce and always much more costly than they had ever been before.

Currency fluctuations disturbed the world's economic stability and made it difficult to plan with any degree of precision.

Political upheavals, major and minor, spread across all the continents, threatening to upset traditional patterns of trade and payments.

It would be an oversimplification to say that the record level of sales and earnings registered by Heinz came about because of day-to-day adroitness in coping with these phenomena. In the first place, we were *not* successful on every front. In the second place—and more importantly— our ability to weather the year's storms was the result of plans and philosophies instituted long before the year began.

For instance, we have long resisted the temptation to venture into areas that fall outside our established competence in consumer goods marketing. The wisdom of that course has been confirmed by recent history, with the failure of widely disparate operations acquired by certain corporations in their moves toward conglomeration. We have succeeded through faithful adherence to the principle restated during the year by one of our senior officers: Our brightest hope lies in doing better what we do best.

A major factor in our success has been an excelling ability to find the supplies we need. Here, again, it was years of planning that made the results possible. The deliberate construction of a world-spanning network of sources, along with traditional Heinz leadership in agricultural technology and research, has insulated us from local setbacks caused by the unpredictability of nature. When forced to substitute, our technicians have done so with ingredients that turned out to be not only less costly, but equal or superior in taste and nutritional value.

Similarly, a worldwide marketing position has cushioned the impact of local—and, we believe, temporary—downturns in some of our companies. We are most encouraged by the response to efforts to improve the performance of our domestic companies, which sell in what is still the largest single market in the world. We can now record a full decade of steady progress in their contribution to over-all sales and striking increases in their contribution to income.

We foresaw, correctly, that while consumers would not significantly reduce their food purchases, economic conditions would make them warier in their preferences. Accordingly, we exercised greater care in making new product introductions, which have proved increasingly expensive to promote and frequently unrewarding, as consumers have tended to remain loyal to familiar items. As part of a continuing cost-cutting effort, we dropped a number of products that were only marginally profitable. At the same time, we strengthened the position of our established products, so that we were able to hold or expand market shares for our basic lines.

During fiscal 1975, we focused increasing attention upon the control of debt levels and instituted special programs designed to im-


HEIN

*from left*

*Anthony J. F. O'Reilly*
*R. Burt Gookin*
*Henry J. Heinz II*

prove inventory turnover at all operating subsidiaries. We expect further improvements during the current year as we press even harder to strengthen the quality of our capital structure.

Needless to say, none of these achievements could have been recorded without the remarkable competence and dedication of our people, who constitute one of the best management teams in the industry. Our faith in them is evidenced by our determination to continue a policy of decentralized responsibility, with local managers making local decisions subject only to broad guidelines from World Headquarters.

We advanced the process by a series of international meetings during the year at which Heinz specialists from all over the world shared the benefits of their experience with their opposite numbers. This free interchange of views and information without regard to political boundaries has broadened the perceptions and upgraded the quality of our management.

The events of the past year have established Heinz's ability to move ahead in bad times as well as good. The investment community has taken favorable note of that fact, and Heinz shares stood close to a record high at the end of the fiscal year.

The respect accorded to our stock—along with the board's decision in March to raise the dividend—must be attributed to something more than satisfaction with a respectable performance in a difficult year. It reflects, also, confidence in the company's continuing prospects.

We believe that, for the remainder of this century and beyond, the processing of food will offer more dynamic opportunities for growth than ever before. In the face of rising demand and soaring populations, we will be challenged to find even better ways to grow, harvest, transport, store, process and market our products. Heinz has the advantage of strong capability in each of these areas.

Recent events have demonstrated the ability of the industry in general, and of Heinz in particular, to offset the effects of inflation and recession. Wide acceptance of the Heinz label as a symbol of quality and value has served us well during a period in which consumers withheld their purchases on other fronts.

Our optimism is tempered by a growing tendency for the domestic political sector to intervene in the operations of the private market system. We are not encouraged when we witness government's inability to manage its own financial affairs in responsible ways. We are further disheartened when we regard the distress of such heavily regulated industries as the utilities and the railroads. It is evident that government regulation sometimes defeats its own purpose and often requires unproductive investment without corresponding benefit to the public.

America's food industry has written a record that should establish for all time the efficacy of a system that stimulates sensible growth, rising employment and an equitable cost-value relationship through the incentive of reasonable profit. American consumers enjoy a variety of choice that is unmatched anywhere else, and do so using the lowest percentage of personal income of any people in the world.

Attempts by government leaders and others to cast producers and consumers in an adversary role ignore the fact that the American food industry, by its very nature, has long been the consumer's advocate. The industry has consistently gone out of its way to discover the public's wishes. It was founded, in fact, as a response to the perceived need for processed foods that would guarantee the highest standards of quality and nutrition. Today, we would not think of launching a new product without first submitting it for public acceptance through extensive market testing. No one has yet devised a better way to regulate our behavior than what happens when consumers register their preferences—or their disdain—in the stores.

In viewing the year ahead, we are aware that the most respected economists cannot agree upon the outlook. Certainly, we face new difficulties. How soon the hoped-for world economic upturn will take place, and how strong it will be—these are at best topics for informed conjecture. The only honest promise we can make, to shareholders and employees, is that we will remain alert to changing developments, capitalizing upon them at every opportunity with the considerable strengths we have built. We expect to achieve our 13th consecutive year of satisfactory sales and earnings improvement in fiscal 1976.

Henry J. Heinz II

*Chairman*

R. Burt Gookin

*Vice Chairman and*
*Chief Executive Officer*

Tony O'Reilly

*President and*
*Chief Operating Officer*

*They Gauge the Markets*

*The battleground for consumer preference varies from country to country. Every month, Heinz experts from France, Germany, Belgium and The Netherlands meet in Brussels to fix plans for products yet to be launched or already on the shelves.*

# *Marketing*

Heinz companies around the world adopted a variety of strategies to expand their markets during a year when consumer incomes were further pinched by inflation and recession. They maintained or increased market shares for major products by means of new packaging, intensive promotion and selective additions to product lines.

In the United States, Heinz companies had a good year despite the nation's severe economic difficulties.

Heinz U.S.A. continued the significant improvement in sales and profitability that began two years ago, achieving record market shares for some of its basic products. Return on sales for the Grocery Division reached an all-time high as marketing strategies responded to increased consumer purchasing by rearranging the product mix to concentrate on more profitable lines.

Reflecting the popularity of "meal stretchers" when food costs are high, 57 sauce, barbecue sauce and ketchup all recorded new highs in their shares of market. Ketchup attained a record market share and became the first Heinz U.S.A. grocery product to reach annual sales of $100 million, with a significant increase in shipments. Barbecue sauce with meat tenderizer went into national distribution and promptly increased its market share, helping the company to chalk up its most successful year in barbecue sauce sales. Pickles captured a larger share of a highly fragmented market whose total size is even greater than that for ketchup.

The company continued as a leader in a vinegar market that rose sharply from a steady but profitable base in response to greater activity in home preserving of garden vegetables.

Heinz improved the profitability of its baby food business in a market that is growing again as the national birth rate resumes an upward course. The baby food line was completely repackaged, and promotion stressed nutritional value and the confidence inspired in mothers by the Heinz label.

Two new products were successfully launched. Mild 'N' Zesty steak sauce did well in test markets and promises to become an important addition to the popular meat sauce line. A line of 10 Country Brand Soups was introduced, and tests are continuing.

Foodservice business continued to advance. During the year, Heinz dollar sales to this market increased by an amount greater than the company's total foodservice sales 10 years ago. Heinz now markets 18 major product groups offering 288 varieties. It is one of the largest suppliers to this $65-billion industry and has quadrupled its foodservice sales in the past decade.

The frozen pizza introduced a year ago for the school lunch market is now in wider distribution. The facility at Schaumburg, Illinois produced the 100-millionth "Educated Pizza" at midyear and was approaching the 200-million mark by year end.

For the fourth consecutive year, distributors chose Heinz as the nation's Number One Foodservice Manufacturer in a poll conducted by *Institutional Distribution* magazine.

A slowdown in the growth rate for Star-Kist's tuna sales that began in midyear accelerated in the fourth quarter when meat prices dropped significantly, reducing the attractiveness of tuna as a meat substitute. Star-Kist took prompt action to control inventory buildup, and was able to achieve results close to the very high level of fiscal 1974. At year end, tuna prices also were coming down as meat prices were rising sharply, which should spur sales in the new fiscal year.

Handy three-packs of solid white and chunk light tuna accounted for more than one-third of small-sized can sales within six months after their introduction.

A national introduction of three new flavors extended Star-Kist's 9-Lives canned cat food line to 24 varieties. Four Square Meal soft moist cat food varieties went into five major markets with good results. The dry cat food line was repackaged, with three dual flavors added in an effort to win a larger share of this growing sector.

Ore-Ida sales and profits were the highest ever. For the fifth consecutive year, the company increased its share of the retail frozen potato market. Line extensions included a new 4-pound bag of Tater Tots and Southern style hash browns.

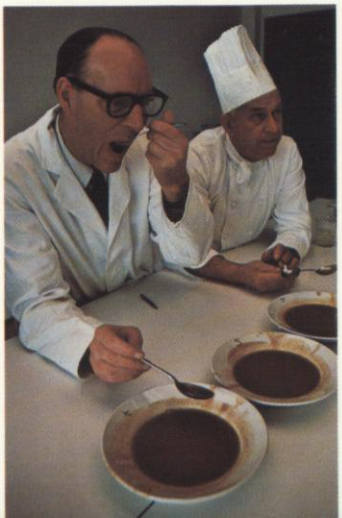
Ore-Ida also increased its share of the foodservice potato market. During the year, the company became sales and marketing agency for Dutchie pretzels, which are now sold in Northeast and Midwest markets and have potential for wider distribution.

Canada registered an appreciable gain in gross national product. Heinz-Canada achieved a record sales year, thanks to consumer emphasis on value and longstanding confidence in the Heinz label. The company maintained its market dominance in vinegar, canned spaghetti, tomato juice and beans. It outsold its closest competitor in ketchup by a ratio of 6 to 1 and held approximately three-fourths of the baby food market.

Heinz-Canada's foodservice sales rose strongly, and now represent some 20 percent of total business. The

## *They Start With Human Skills*

*Complex as it has become, modern food processing still derives from specialized individual talents. A British chef is free to improvise. Two of his associates submit a new soup recipe to their experienced taste buds.*

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foodservice line was increased with the addition of a new line of nutritious, reciped products that use textured soy protein as a base to be combined with fish and meat.

Britain's economic environment was probably as difficult as any in the industrialized world, with rampant inflation, an unprecedented trade deficit, and price controls that made it impossible to recover the much higher costs of labor and raw materials.

Heinz-U.K. succeeded in maintaining its strong market shares, better than 50 percent each for 10 major product groups. Stepped-up promotion, along with the launch of three new regular varieties and six low-calorie varieties, helped the company to increase its share of the soup market. At year end, canned pasta and sponge puddings each held a record 77 percent of their respective markets, while new varieties of canned salads helped that product line to win a record 30 percent share of its market.

Baked beans, consumed by the British to a degree unequaled elsewhere, rose sharply in price as a result of much higher prices paid to bean growers. Aggressive merchandising made it possible for Heinz to obtain a record level of nearly 60 percent of this market. The pickle market remained static, but Heinz won a larger market share by repackaging its line and introducing two new varieties. Baby food sales remained strong and were promoted on the basis of special varieties for breakfast, supper and dessert. Four "extra egg" varieties and two dessert varieties were offered for the first time.

Heinz-U.K. further expanded distribution of its highly successful line of aseptically canned milk-based products. Canned dairy desserts, introduced into test markets a year earlier, went into national distribution during fiscal 1975. In a national poll, trade buyers voted dairy desserts one of the three most successful new food products introduced to the British grocery trade during the year.

Three new canned burgers went quickly into national distribution, joining the original product—canned beefburgers—which has shot into market dominance since it was introduced in 1972.

Foodservice sales were up by 40 percent and three times as high as they were four years ago. Britons have been eating out in increasing numbers, a fact reflected in the strong growth of the foodservice market. The most significant product launch for this market came with the appearance of Caf-Ole, a powder substitute for milk or cream in coffee and cooking.

Italy, too, was buffeted by severe inflation, but Plasmon turned in a good performance despite the instability of the national economy. Through its acquisition of Diet-Erba, the fifth largest company operating in Italy's dietetic sector, Plasmon is now strong in every major baby food segment and holds a 65 percent share of the total market. Italy's high birth rate has pushed this market upward. Plasmon now leads in all of its three sectors—preweaning, weaning and postweaning products. Of these, postweaning products are the most important, and the company continued to lead in all five categories, with an over-all market share of 52 percent. Baby biscuit sales went up by 13 percent, and Plasmon regained its dominance of the pharmacy market after an eight-year effort.

New products introduced during the year included oatmeal cookies for school-

*They Race to Meet Schedules*

*Every step in the production process must be tightly programmed. A Moroccan worker selects the best nursery seedlings for transfer to the tomato fields as company managers supervise construction of a factory that will be finished in time to process the first crop.*

children, dietetic cooking and salad oils, two varieties of baby snack foods and six varieties of baby cereals. In addition, the Diet-Erba acquisition will give Plasmon new capabilities in the geriatric market.

Efforts to expand the marketing of Heinz products in France, Germany, Belgium and The Netherlands, directed by Heinz's Central European organization in Brussels, met with significant success. Sales were up by more than 25 percent. The year was marked also by wider distribution of Heinz products across national boundaries, indicating that the four-country region is becoming a single important market for Heinz.

Heinz defended its leading ketchup position in The Netherlands and France and improved its dominant share of the Belgian ketchup market to reach a new high.

Sales of sandwich spreads and salads rose by 50 percent in The Netherlands, and these products were introduced into other markets. In Paris, a new line of ready-to-serve soups based on French provincial recipes did well in test markets. Other products introduced in the Central European market included low-oil, low-calorie mayonnaise and salad dressings, canned salads, and dessert and other sauces. For the foodservice market, a range of sauces and a 32-ounce "King Ketchup" size were introduced.

Venezuela, a major oil exporter, prospered when petroleum prices climbed, but inflation loomed as a threat to economic stability. Alimentos Heinz improved its position, achieving higher volume in all major product lines and an overall sales growth of 25 percent. The company's ability to maintain ketchup supplies enabled it to win a record 50 percent of the ketchup market. Baby food sales reached a level double that of three years ago and mayonnaise went into selected markets.

Although all of Heinz-Australia's units remained profitable, results were well below those of the year before because of labor stoppages, poor crops, a weaker economy, and government price controls that made it impossible to compensate for the sharply rising cost of labor and raw materials. There is evidence now that the government is taking a more understanding attitude toward the importance of profitable private enterprise for a healthy economy.

Market shares were up for the company's four major product lines. Baby food sales were affected by the declining birth rate, but this product line did manage to improve its market share, as did canned soups, baked beans and spaghetti. Heinz's share of the ready-to-serve soup market jumped to 40 percent, while its share of the canned soup market rose to a record 36 percent. Foodservice sales climbed sharply, with the pack of the Epicure affiliate up by 57 percent.

The importance of Australia's acquisition program became clear as the specialty food companies acquired during the past four years did extremely well, compensating to a large extent for poorer results in the traditional range.

The Stanley Wine Company, acquired in 1971, grew in reputation to become one of the most respected vintners in Australia, thanks to strong performance in state wine shows and a continuing flow of praise from professional wine writers. The company has reduced its bulk sales in order to concentrate upon branded bottled wines, which are more profitable. An intermediate range had a highly successful launch, giving consumers further options between Stanley's inexpensive

*They Cater to Various Palates*

*Heinz became an international force by learning how to satisfy local tastes in food. A Dutch foreman inspects green tomatoes destined to go into a familiar spread. In Britain, a machine operator feeds lids to a canning line for popular oxtail soup.*

*They Harvest Land and Sea*

*Heinz is widely recognized for its success in procurement. A tuna boat pulls in from a long voyage and immediately begins winching its load onto the factory dock at Terminal Island, California. The giant fish are translated into thousands of cans like the one being weighed here.*

varieties and its award-winning vintage wines.

Baltic Merchandising, a specialty food importer acquired in 1973, experienced a strong rise in sales and achieved profits in excess of budget in its first full year under Heinz control.

Epicure Continental Food Company extended the use of its pickle-barrel glass package and raised its sales volume significantly with the help of improved distribution through major outlets.

The newly acquired Greenseas Division successfully marketed canned tuna and gave the company slightly more than half of that market. It introduced cat food into test markets prior to national distribution, which is scheduled for fiscal 1976.

The Japanese economy, heavily dependent upon imported oil, suffered severe inflation and a reversal of its phenomenal growth. The government stressed extreme monetary stringency and the stabilization of prices. Under these conditions, Nichiro Heinz was able once more to increase its sales.

Continuing to build its market position in an economy under stress, the company unveiled several new products, including demi glace sauce and a pizza sauce for the foodservice market and a health drink for special outlets. Japanese National Railways selected the company's premium ready-to-serve cream of corn soup for passengers on its famous "bullet trains."

The line of imported products was expanded to include baked beans and Ideal sauce from Heinz-U.K. Nichiro Heinz now markets more than 40 imported Heinz varieties in Japan.

The Portuguese company introduced Worcestershire sauce. It registered an overall sales gain of 31 percent.

## *Facilities*

Despite the short-term economic problems that plagued most of the industrialized world during fiscal 1975, Heinz pushed ahead with a long-range program to improve its ability to produce efficiently for the growing, worldwide food markets of the future. Individual companies undertook a number of projects to expand production of high-volume products and to protect margins through greater efficiency.

Star-Kist began production of 9-Lives canned food at Muscatine, Iowa, a prime location for access to both markets and raw materials. The existing Heinz building that had been converted to pet food production was expanded by addition of a 55,000-square-foot warehouse and a 2,000-ton cold storage plant, along with enlarged capacity for can manufacturing.

Star-Kist made a sizable investment in a 1,200-ton bin complex at Perham, Minnesota for the Tuffy's dry dog food line.

Ore-Ida moved forward with plans to install a computerized information system that will upgrade the company's customer service activities.

Heinz-Canada began the final phase of a large-scale program to expand tomato paste processing at the Leamington, Ontario plant. When completed in fiscal 1976, the new facilities will not only increase production, but enable the company to make maximum use of advanced tomato storage techniques. This will give the company an important advantage in its drive to become self-sufficient in the Canadian market.

The can-making facility completed last year at Chatham, Ontario went into full production in fiscal 1975 and met virtually all of Heinz-Canada's requirements.

The British company initiated or completed a number of projects to improve its manufacturing efficiency. These included modifications in baby food lines, improved bean sorting facilities, increased capacity for ravioli, beans and sausages, and more advanced instrumentation for use in sterilizing operations. At Coleraine, Northern Ireland, aseptic-canning facilities were expanded to meet growing demand for the new line of milk-based products, including the highly successful dairy desserts.

In Morocco, Heinz Sagima, formed in 1974 as a joint venture of Moroccan interests and Heinz-U.K., began construction of tomato processing facilities. These will be ready to receive this summer's tomato crop from some 800 acres cleared for experimental farming and planted with Heinz-developed seeds from all over the world.

Plasmon expanded its Latina plant in southern Italy by completing new installations for biscuits and fruit juices. The biscuit lines, among the largest in the world, can now produce approximately 8,000 biscuits a minute. In view of the need to assign all available personnel to work on demand for biscuits and strained foods, fruit juice production was delayed until the third quarter of the fiscal year.

In Central Europe, Heinz concentrated on upgrading production facilities for such high-volume products as sandwich spreads and ketchup. Improvements in the ketchup line increased production and expanded yields from raw materials. The billing and management information system was modernized by installation of an electronic data processing center at Elst, The Netherlands, with terminals in the Belgian and German offices.

Australia undertook major improvements in sterilizing and can-labeling operations at its principal factory in Dandenong, and in expanded bottling capacity for Stanley wines. The Greenseas Division completed a new cold storage facility for tuna.

## *Land and Sea Resources*

Heinz's strength in procurement was a decided advantage in a year that generated wide swings in commodities markets. As evidence mounts that world food production may not keep pace with world population, the company's success in meeting many of its own raw material requirements, and in developing new and improved supply sources, takes on special significance.

In the United States, Heinz has long been an innovator in agricultural research and technology. Pioneer work has led to significant increases in tomato production. During fiscal 1975, the volume of tomatoes processed by Heinz U.S.A. was 27 percent larger than in the preceding year, and 8 percent larger than the previous record. One result was that Heinz was the only major ketchup supplier not to run out of certain sizes during the year.

Four new tomato varieties developed by Heinz research passed grower trials and will go into commercial production during the current season. New cucumber brining methods are expected to increase the recovery of quality pickles by as much as 50 percent. Successful research into protein sources and sucrose substitutes led to product modifications that improved nutritional quality at lower cost.

Ore-Ida concentrated on the reduction of "moisture stress," which affects the quality and yield of potato crops. In an effort to eliminate the problem, the company conducted a

## *They Apply the Fruits of Research*

*Agricultural research has long been a key element in Heinz productivity. Special strains developed for Venezuela's soil and climate make it possible to harvest tomatoes before the onslaught of the rainy season. Not long after, ketchup bottles come out of the San Joaquin factory to meet a demand that has given the product 50 percent of its market.*

pilot program that offered computerized irrigation scheduling services. By evaluating the rate of soil moisture loss, the program can predict accurately the date on which irrigation will be needed. During the fiscal 1975 season, 19 contract growers on 605 acres participated in the program. Both the number of growers and the acreage involved will increase during the coming season.

One of the earliest killing frosts on record sharply reduced the Canadian tomato crop. Unsatisfactory growing conditions also held down cucumber production. Acreage for both tomatoes and cucumbers will be expanded during the coming growing season, and a larger percentage of both crops will be mechanically harvested. The bulk handling method of transporting raw product to the factory location is used for the entire tomato crop grown for Heinz-Canada.

The program undertaken by Heinz-U.K. to diversify its supply sources helped the company to meet its requirements in a year that began with soaring commodity prices and spot shortages (but ended with lower prices and an easier supply situation). Portugal remained a major European supplier of tomato paste, although final tonnage available for export to Britain was below estimate. New sources in Greece and Turkey are under development, but the most promising source for tomatoes is North Africa, where Heinz Sagima is expected to become a major supplier of tomatoes, and perhaps other crops, for Heinz-U.K. It is estimated that this Moroccan venture may be supplying 10 million tons of tomato paste annually within three years' time.

Timely and effective purchasing by Central Europe enabled that Heinz organization to cope with the high prices and shortages of basic commodities that prevailed early in the fiscal year. During the past two years, the price of tomato paste supplied to Central Europe has almost quadrupled. Since most tomato paste is bought through Heinz-U.K., that company's efforts to open up new supply sources are expected to benefit Heinz's Central European operations.

Venezuela went through its third straight year of scarcity in tomatoes. Alimentos Heinz has been more successful than its competitors at raw material procurement, but the consistent shortage has meant inadequate supplies for major product lines. To overcome this problem, the company is engaging in a direct farming operation that is expected to provide an increasing percentage of annual tomato requirements. This year, direct farming operations met 15 percent of Alimentos Heinz's needs. Under a new agreement, the government will permit industry to import tomatoes in sufficient quantity to make up for shortfalls in local production, so that recourse to off-season crops can be abandoned. Heinz worldwide procurement of tomatoes should represent an advantage to the company under this arrangement.

In Australia, heavy rains played havoc with row crops, including grapes, leading to shortages and high prices. The per-acre tomato crop yield was the lowest in 20 years, while Queensland's navy bean crop dropped close to failure. The improved weather that returned in time for the new harvest season resulted in an improved supply of fruit and vegetable crops for processing during the current year.

Mechanical harvesting of tomatoes is moving ahead rapidly in Australia and will handle 40 percent of the 1975 Heinz crop, a figure expected to increase in coming seasons. New Heinz varieties suitable for hand or machine harvesting are now in wide use by Australian growers.

The company's Greenseas Division shared in the largest catch of tuna and salmon ever recorded off the eastern coast of Australia. The division is recognized as making an important contribution in Australia's effort to create a substantial fishing industry.

## *Public Service*

The concept of public service was an important factor in the founding, 106 years ago, of H. J. Heinz Company, which took on the mission of providing food products that consumers could trust, afford and enjoy. The notion was radical in a day when much of the nation's commerce seemed to be guided by the words "Let the public beware."

Heinz continues to believe that its basic corporate responsibility—to its customers and to its shareholders—is to offer the public fine food products of superior value. The original mission has not changed. It has only expanded. In the highly interdependent world of the late 20th century, no organization, corporate or other, can operate without concern for the impact of its actions upon individual communities or upon society as a whole.

The Executive Committee of the Board of Directors established an Equal Employment Opportunity Task Force made up of World Headquarters personnel and representatives of the domestic companies. The force reports directly to World Headquarters and is authorized to co-ordinate and monitor the activities of all domestic companies in this most important area of human relations. This action reaffirms management interest and concern at the highest level, and will en-


*They Analyze for Nutritional Value*

*The tools of science guarantee quality, uniformity and longer shelf life. White-coated biochemists at Plasmon's research laboratories in Milan constantly monitor such factors as fat levels, amino acid content and protein concentration.*

sure a continuing effort throughout the companies' work forces.

In fiscal 1975, Heinz U.S.A. continued to work for greater opportunity for minorities. Activities included recruiting of managerial talent on college campuses and continued support for the Heinz Youth Motivation Task Force, established by company employees seven years ago to assist Pittsburgh junior high school students.

For many years, the various companies that make up Heinz have pursued active programs to protect the physical environment, to expand consumer knowledge of nutrition and good eating habits, and to support worthwhile social and economic efforts to the fullest possible extent.

For the third consecutive year, Heinz U.S.A. participated in the awards program of the National Newspaper Publishers Association, which honors achievements of outstanding journalists serving on black newspapers. The company also participated in the Black Solidarity Fair, which promotes progress in the minority community.

The food aid program, launched in 1968, delivered supplies on a regular basis to social service agencies caring for needy families. Food was donated also to national and international groups concerned with disaster relief, drug rehabilitation and other problems.

Several organizations involved in minority education and training received financial aid from Heinz. The company helped in a drive to raise money for equipment to detect and treat sickle cell anemia.

In the area of consumer information, the company released the sixth edition of "Heinz Nutritional Data," first published in 1934. Coding on the labels of 85 percent of all Heinz varieties was co-ordinated with the requirements of the Universal Product Coding System, which speeds checkout procedures and improves inventory control, thus benefiting both supermarket operators and their customers. Heinz expects to achieve total conversion to the system by the end of calendar 1975.

The company provided 21 scholarships and fellowships for students and teachers selected by a review board under the direction of the National Institute for the Foodservice Industry. Since the program's inception, the company has made 250 such grants.

On the environmental protection front, Heinz began operation of a $2.5-million deep-well system for liquid waste disposal at the Holland, Michigan pickle factory. In Pittsburgh, further progress was made in the program to convert boilers to any fuel, or combination of fuels, that will reduce air pollution.

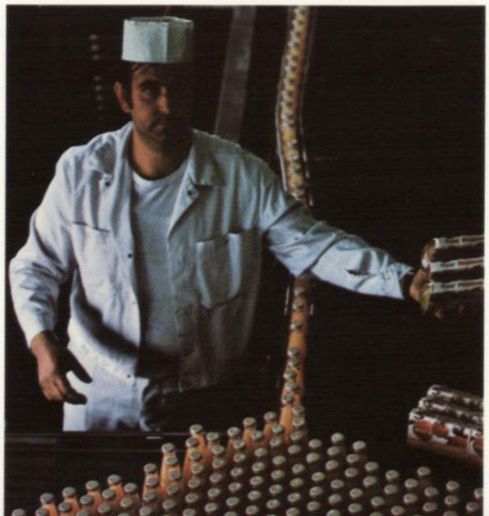
To protect the harbors at Pago Pago and Los Angeles, Star-Kist put into operation two extensive waste treatment systems at its Samoa and Terminal Island facilities. These systems treat cannery discharge waters before they empty into the harbor, and are highly effective in removing wastes.

Star-Kist sponsored "Adopt-A-Cat Month" in conjunction with the American Humane Association. Morris, the company's famed television personality, served as official "Spokescat" for the program, which placed thousands of abandoned cats in new homes.

Ore-Ida implemented a career guidance program to assist employees at the Ontario, Oregon factory in recognizing and preparing for advancement opportunities within the company. The program includes aid for employees who wish to continue their education at

## *They Produce Miracles of Efficiency*

*Carefully allocated capital expenditures have helped to cut costs while maintaining capacity. At the huge Latina factory in southern Italy, a quality control worker —one of the few people visible in the long rows of machinery—pops biscuits onto a calibrated tray. A bottling line turns out three-packs of fruit juice at fantastic speeds.*



a local college. Ore-Ida donated funds to the Boise Art Gallery, the Cassia Memorial Hospital in Burley, Idaho and a community center in Greenville, Michigan.

Heinz-Canada was an active corporate citizen during the year. It provided financial aid for a number of community programs in the Leamington area, including a centennial celebration; donated large quantities of food for international relief; provided nutritional and other consumer information requested by consumers and new mothers; joined with other companies to found the Canadian Foundation for Economic Education; and increased its participation in the Canadian-American Seminar, an annual event sponsored by United States and Canadian companies and the University of Windsor to promote international understanding.

As a leader in the British food industry, Heinz-U.K. has long been an active participant in programs involving community welfare, consumer education, medicine and international understanding. In fiscal 1975, the company maintained close and fruitful contact with consumer organizations. It changed the formulation of its baby food line to reflect the newest information available from pediatric specialists.

Support went to specific projects involving the environment, race relations, help for the aged and handicapped, advanced food technology, education and medicine. The company once again endowed the Heinz Fellowships in Pediatrics, given to Commonwealth and British pediatricians for postgraduate study in the United Kingdom or in developing countries.

The company made financial donations to a variety of social service agencies and gave large amounts of its products, particularly baby foods, to international relief organizations.

Plasmon continued its efforts to build a fund of information on infant nutrition and make it available to Italian pediatricians, researchers and government personnel. The third annual "Plasmon Study Days" seminar attracted prominent medical, academic and government experts from eight countries, who took advantage of this opportunity to consider and share new information on infant feeding.

The Venezuelan government recognized the increasing stature of Alimentos Heinz when it named the company's director of product development and quality control to a panel studying nutritional values of local foods and ecological problems caused by industrialization.

In Australia, Heinz again gave strong support to social, cultural and scientific programs of benefit to the public, including sponsorship of the Fifth International Symposium on Olfaction and Taste. The symposium is conducted in association with the Howard Florey Institute of Experimental Physiology and Medicine at the University of Melbourne.

This year the Heinz Overseas Study Tour Scholarship for Nurses went to Barbara Sanderson of the Royal Australian Nursing Federation. The results of her study of the role of nurses in the changing pattern of health care will be published shortly.

Australia suffered one of the year's worst natural disasters when a cyclone virtually destroyed the city of Darwin on Christmas Day, 1974. Heinz was the first company to respond to Red Cross appeals for help. Despite the holiday, Heinz personnel delivered 10 tons of baby foods to waiting aircraft, which delivered the food to Darwin, 2,100 miles away, the same night.

In sports-loving Australia, there are many opportunities to support and encourage athletic skills and competition. Heinz-Australia assists many sports organizations, and this year sponsored the Sportsman of the Year promotion, which honored 45 athletes. The company also sponsored the State of Victoria Little Athletics Association Championships, a competition that encourages sports among thousands of children up to 12 years of age.

The Stanley Wine Company installed a water disposal system that drew praise for prompt attention to a local problem at Clare.

*They Strengthen Ties With Consumers*

*All of Heinz's activities boil down to a continuing effort to preserve the public confidence won in more than a century of operations. In Pittsburgh, a home economist tests a recipe to be included in a pickling booklet offered free of charge. She is one of many who anticipate and respond to consumer inquiries throughout the year.*

# *Financial Section*

## *Index*



## *Form 10-K Information*

The financial statements appearing in this Annual Report to shareholders are substantially the same as those which the company was required to file with the Securities and Exchange Commission in its Annual Report on Form 10-K. In compliance with SEC regulations, the Form 10-K Report contains certain supplemental financial information and other related data. The company will furnish a copy of Form 10-K without charge upon written request. Such request should be directed to Corporate Public Relations Department, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230.

## *Discontinued Operations*

*During 1973, the company reported the disposition of certain operations and the expropriation of a subsidiary. In all financial reports since that time, the discontinued operations of prior years have been segregated so that the continuing operations of the company could be presented on a comparable basis over a period of time. All information on sales and income in the financial section includes continuing operations for 1966 through 1973. There were no discontinued operations after 1973. The results of operations for the discontinued companies are available in the 10-Year Summary of Operations and Related Data elsewhere in this annual report.*

## *Sales*

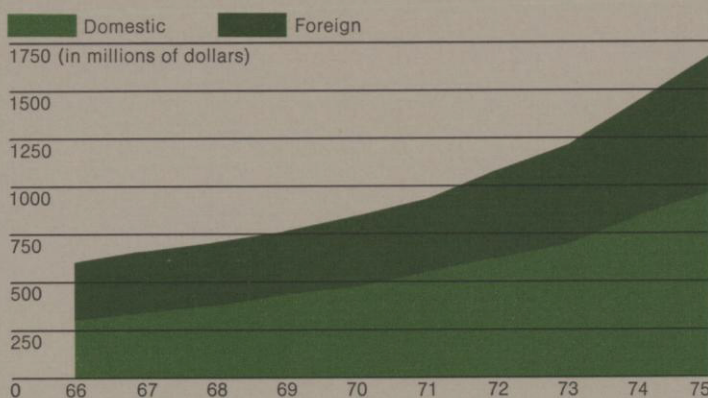
Sales for 1975 amounted to nearly $1.7 billion, an increase of $300 million, or 15.6 percent, over last year's sales. This represents the 12th consecutive year in which the company has registered a sales increase, and results in a 10-year annual compound growth rate of 11.9 percent and a five-year annual compound growth rate of 14.7 percent. The net gain this year results from price increases necessary to recover escalating labor, material and transportation costs and reflects, in part, the end of U.S. price controls at the close of fiscal 1974 and the termination of a commitment to maintain price levels for certain products through the end of the first quarter of fiscal 1975. Price controls continue in effect in the United Kingdom and Australia. Contributing to lower volume performance was the continuation of a worldwide program to eliminate low-margin and high-capital-intensive items from product lines in an effort to direct more attention to those items that yield a better return to the company.

Sales of domestic companies in 1975, including those in U.S. possessions, amounted to $960.5 million, an increase of 13.8 percent, and represented 58 percent of consolidated sales. Sales of foreign operations increased by 18.2 percent to $702.1 million. Lower exchange rates in 1975 reduced sales by $19.1 million.

Return on sales (excluding nonrecurring items) was 3.8 percent for 1975, compared with 3.9 percent last year, primarily reflecting sizable increases in raw product and labor costs, interest expense and higher effective tax rates.

Sales for 1974 amounted to $1.4 billion, an increase of $200 million, or 19.3 percent, over sales of $1.2 billion in 1973. Approximately 50 percent of this increase was attributable to higher selling prices. Because of price controls in effect in the United States, United Kingdom, Italy and Australia, higher costs were only partially recoverable. Favorable exchange rates in 1974 compared with those in effect in 1973 increased 1974 sales by $5.4 million.

*Sales, Domestic vs. Foreign*



## *Cost of Products Sold*

Cost of products sold increased from $940 million in 1974 to $1.1 billion in 1975, a rise of $160 million, or 16.8 percent, reflecting higher costs of raw materials, packaging materials, utilities and labor resulting from significant inflationary trends in the United States and to a greater degree in the European countries and Australia.

Cost of products sold in 1974 increased by $167 million, or 21.6 percent, over $773 million reported in 1973. The rise was attributable primarily to higher raw product and packaging material costs and increases in sales volume during 1974.

## *Interest Expense*

Interest expense in 1975 amounted to $31 million, an increase of $10 million, or 47.2 percent, over interest expense of $21 million in 1974. This increase resulted from higher average borrowings and from increased interest rates around the world. The increased borrowings reflect, among other things, the impact of higher inventory levels throughout the year.

Interest expense in 1974 increased by $7.2 million, or 52.6 percent, over the 1973 figure of $13.8 million. This, again, reflects higher borrowing levels and increased short-term interest rates.

## *Provision for Income Taxes*

The effective tax rates for 1973, 1974 and 1975 were 37.4, 38.9 and 42.2 percent, respectively. Since the company provides for taxes at the statutory rates in effect on pretax income reported for financial statement purposes, the increase in the effective tax rate is attributable to higher earnings in higher tax rate countries.

## *Income*

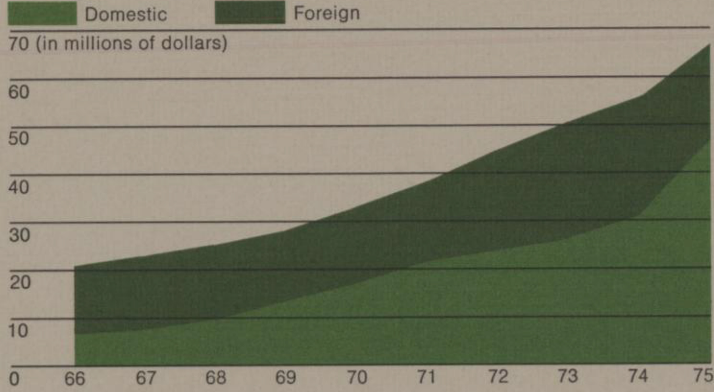
Income for 1975 amounted to $66.6 million, an increase of $11.1 million, or 19.9 percent, over income before extraordinary item last year of $55.5 million. This year's income includes a nonrecurring gain of $2.7 million, after tax, which represents the excess of insurance proceeds received over the book value of assets destroyed in connection with fire losses of a domestic subsidiary. In accordance with the criteria set forth in Opinion 30 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the gross amount of this gain (before provision for appropriate income taxes) has been classified as Other Income in the accompanying Statements of Consolidated Income rather than as an extraordinary item. Excluding this item, income for the year amounted to $63.9 million, an increase of 15.0 percent over the preceding year's income before extraordinary item, resulting in a 10-year annual compound growth rate of 12.9 percent and a five-year annual compound growth rate of 14.1 percent.

Last year's income of $55.5 million excludes extraordinary income of $8.8 million resulting from recoveries in connection with the phase-out of the company's Mexican operations and the expropriation of certain assets of a subsidiary by the Peruvian Government. This matter is explained in more detail in note 8 of the Notes to the Consolidated Financial Statements.

Domestic income for the current year amounted to $47.3 million, an increase of 50.2 percent, and represented 71 percent of consolidated income. Earnings from foreign

operations amounted to $19.3 million, a decrease of 19.9 percent. The decline in foreign earnings, in spite of sales increases, is a result of substantial cost increases related to the higher rates of inflation in Australia and the European countries; the continuance of price controls in the United Kingdom and Australia; lower foreign currency exchange rates, including a charge of $1.2 million resulting from the unrealized loss in connection with the devaluation of the Australian dollar; and generally higher effective income tax rates, including withholding taxes on substantially higher dividends remitted to the parent company. In spite of these adverse factors, the company is optimistic about the future performance of its foreign subsidiaries in view of the fact that our products continue to be well received and enjoy significant market shares.

*Income (from continuing operations), Domestic vs. Foreign*




## Loss from Discontinued and Expropriated Operations

In 1973, the company phased out the operations of a Mexican subsidiary, withdrew from direct farming operations at Ore-Ida Foods, Inc. and disposed of certain assets of a United Kingdom subsidiary. In addition, certain assets of a Peruvian subsidiary were expropriated by the Peruvian Government. In order to report the ongoing operations of the company on a comparable basis, the net losses of discontinued and expropriated companies are presented separately in the 10-Year Summary of Operations. An extraordinary charge was provided in 1973 in anticipation of expected losses and expenses in connection with the termination of the above entities.

## Extraordinary Items

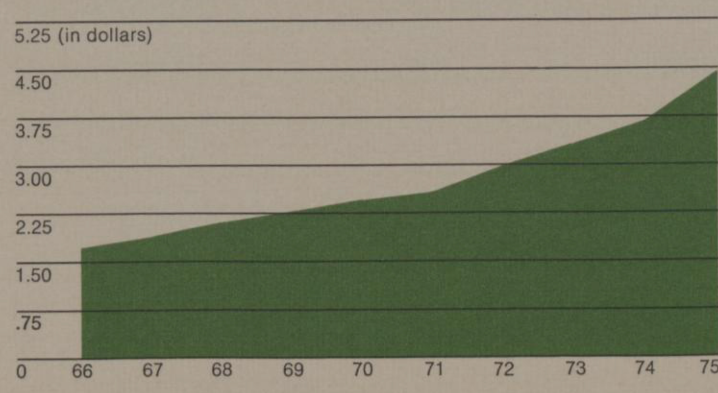
The extraordinary charge in 1973 of $25 million (after estimated income tax benefits of $6.5 million) reflected management's best estimate of cost and potential losses resulting from the developments discussed in the preceding paragraph.

The extraordinary credit in 1974 of $8.8 million resulted from the completion of the phase-out of the company's Mexican operations on a more favorable basis than was originally anticipated and from payments received and expected as final compensation in connection with the expropriation of certain assets of a Peruvian subsidiary. This credit is after estimated Federal income taxes of $7.7 million.

## Earnings Per Share

Earnings per share for 1975 were $4.40, an increase of 19.9 percent over last year's figure of $3.67, which excludes extraordinary income of 59 cents. Earnings per share this year include 18 cents from the nonrecurring gain previously described. Excluding this item, earnings per share for the year amounted to $4.22, an increase of 15.0 percent over last year's $3.67, resulting in a 10-year annual compound growth of 10.8 percent and a five-year annual compound growth of 11.6 percent. Lower foreign currency exchange rates reduced this year's earnings per share by 4 cents. The effect of foreign currency exchange rates in last year's earnings per share was insignificant.

*Earnings Per Share (from continuing operations)*



## Quarterly Results

The table below shows quarterly sales and income for the past two years. Quarterly sales and income are affected by seasonal factors, and the results in any particular quarter are not necessarily indicative of the over-all performance trend for the year. Sales and income increased in each quarter of 1975 over the comparable period of 1974. The fourth quarter of 1975 includes a nonrecurring gain of $2,724,000 after tax, or 18 cents per share, from settlement of insurance claims. The extraordinary item in 1974 is shown separately in order to allow a more meaningful comparison.

Financial Results by Quarter (In thousands of dollars except per share amounts)

| | 1975 | 1974 | Percentage Increases |
|---|---|---|---|
| **Net sales** | | | |
| First | $ 390,340 | $ 328,885 | 18.7 |
| Second | 450,907 | 390,795 | 15.4 |
| Third | 369,033 | 343,000 | 7.6 |
| Fourth | 452,421 | 375,571 | 20.5 |
| Total | $1,662,701 | $1,438,251 | 15.6 |
| **Net income** | | | |
| First | $ 11,593 | $ 9,720 | 19.3 |
| Second | 17,301 | 14,976 | 15.6 |
| Third | 11,650 | 9,524 | 22.3 |
| Fourth | 26,023* | 21,300 | 22.2 |
| | 66,567 | 55,520 | 19.9 |
| Extraordinary item | — | 8,800 | — |
| Total | $ 66,567 | $ 64,320 | 3.5 |
| **Earnings per share** | | | |
| First | $ .77 | $ .64 | 20.3 |
| Second | 1.14 | .99 | 15.2 |
| Third | .77 | .63 | 22.2 |
| Fourth | 1.72* | 1.41 | 22.0 |
| | 4.40 | 3.67 | 19.9 |
| Extraordinary item | — | .59 | — |
| Total | $ 4.40 | $ 4.26 | 3.3 |

*Includes $2,724,000, or 18 cents per share, from a nonrecurring gain from settlement of fire loss claims.

## *Dividends*

The quarterly dividend payout on the company's common stock was increased to 32 cents per share in March, 1975 from the previous rate of 28 cents per share. This was the eighth consecutive year in which dividends were increased and brings the annualized payout to $1.28 per share, which is more than double the rate of 10 years ago.

## *Working Capital*

Working capital increased by $54.5 million to $378.4 million at the end of 1975. The change in working capital is presented in detail on page 37.

Because of inflationary trends experienced in the early part of the year, the company examined the possibility of changing from the average cost to the last-in, first-out (LIFO) method of accounting for inventories in the United States. After an extended review including the projection of future material costs, it was concluded that the present system reflects the flow of costs and will continue adequately to match revenue and expense.

Short-term borrowings at the end of 1975 increased slightly to $140.0 million from $132.2 million, while average short-term debt outstanding during the year increased to $185.7 million, compared with $127.9 million last year. This substantial increase in average debt resulted principally from higher inventory levels attributable to significant increases in cost of raw product and packaging material, particularly during the first nine months of the year. Attention to the increase in inventories and the corresponding increase in debt resulted in a substantial reduction in these accounts during the fourth quarter. Management will continue to place emphasis on improved inventory turnover.

## *Financing*

Because of the uncertainty of future money markets and the possibility of government restrictions on credit, the company entered into a revolving credit agreement during the year with a group of domestic banks. Under this agreement, the banks are committed to lend the company, on a revolving basis, a maximum of $100 million until December 31, 1977, at which time the outstanding debt becomes fixed and would be payable in 16 equal quarterly installments through December 31, 1981. There were no borrowings under this agreement during the year. Additional details relating to the revolving credit agreement are contained in note 3 of the Notes to Consolidated Financial Statements.

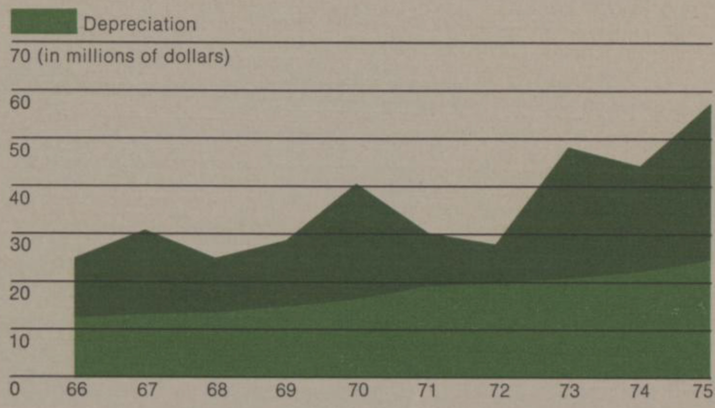
During the year, in connection with an intermediate-term financing agreement, the United Kingdom company borrowed pounds sterling equivalent to $16.6 million at a floating interest rate of 1½ percent over the London Interbank Offered Rate.

Also during 1975, the Italian company issued 500,000 shares of its common stock for the equivalent of $9.6 million, thereby creating a 10 percent minority interest in that company. The excess of the proceeds received over the par value of the stock issued has been credited to additional capital after appropriate allocation to minority interests. The proceeds of this transaction were used to acquire the assets of Diet-Erba, discussed under Acquisitions below.

## Capital Expenditures

Capital expenditures in 1975 amounted to $57.2 million, compared with $44.1 million in 1974. More than half of the expenditures were in domestic operations, while the largest portion of foreign expenditures was made by the United Kingdom subsidiary. Foreign capital expenditures are generally funded locally by the subsidiaries. Capital expenditures covered production expansion and modernization, environmental controls, and replacement of existing facilities. Depreciation was $25.1 million, compared with $22.5 million the year before.

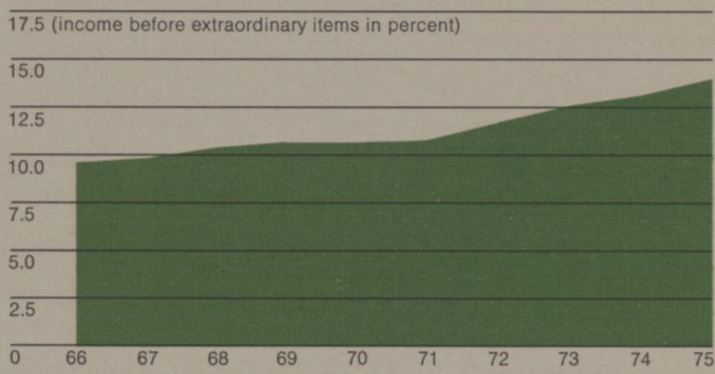
*Capital Expenditures*




## Return on Shareholders' Equity

The return on average shareholders' equity for 1975 was 14.0 percent, compared with 15.2 percent the year before. The current year's return excluding the nonrecurring gain would be 13.4 percent, compared with 13.1 percent the year before excluding the extraordinary item. After eliminating the effect of extraordinary items on this ratio in 1973 and 1974, the company's return on equity has increased steadily in the past 10 years but continues to be below the industry average. Management is actively engaged in programs to improve this important ratio.

*Return on Average Shareholders' Equity*




## Acquisitions

During the year, the following acquisitions were consummated and accounted for as purchases:

1. The company's Star-Kist subsidiary acquired all of the outstanding stock of Ocean Fisheries, Inc., a tuna-fishing company, for approximately $17.5 million. The investment in Ocean Fisheries, Inc., together with the related operations, has been accounted for on the equity method in accordance with the policy of the company to account, in this manner, for its investments in entities that operate fishing vessels.

2. The company's Australian subsidiary acquired Greenseas, a major Australian tuna operation, for $4.3 million.

3. Our Italian subsidiary purchased for $9.6 million the assets of Diet-Erba, which manufactures and markets baby food products.

On a pro forma basis, net sales, net income and earnings per share of the company and its consolidated subsidiaries for 1974 and 1975 would not have been significantly different had the above transactions been reflected as acquisitions from the beginning of 1974.

## *Stock Market Information*

H. J. Heinz Company common stock is listed on and traded principally on the New York Stock Exchange under the symbol HNZ. Approximately 2,475,100 and 2,784,000 shares of the company's common stock were traded on the New York Stock Exchange during fiscal years 1975 and 1974, respectively. The table below shows the dividends paid per share and the price range of the common stock for each quarter of the past two fiscal years.

| Common Stock | Dividends Per Share | Stock Price Range High | Stock Price Range Low |
|---|---|---|---|
| 1975 by Quarter | | | |
| First | $ .28 | $49 | $40 |
| Second | .28 | 43¾ | 27 |
| Third | .28 | 46¼ | 35 |
| Fourth | .32 | 51½ | 44½ |
| Total | $1.16 | | |
| 1974 by Quarter | | | |
| First | $ .27 | $46 | $37¼ |
| Second | .27 | 52¼ | 44½ |
| Third | .27 | 51¾ | 42½ |
| Fourth | .28 | 50 | 38¾ |
| Total | $1.09 | | |

H. J. Heinz Company $3.50 second cumulative preferred stock has voting rights on an equal basis with the common stock. The $3.50 second cumulative preferred stock is not listed on any stock exchange and the company has no knowledge of any price quotations or any private trades that might have taken place during the past two years. Quarterly dividends of $.875 have been paid in each quarter during the past two years.

H. J. Heinz Company 3.65% series cumulative preferred stock does not have voting rights. Quarterly dividends of $.9125 have been paid in each quarter during the past two years.

The company's capital stock is described in more detail in note 4 of Notes to Consolidated Financial Statements.

## *Supplementary Data* *(See note 12 of Notes to Consolidated Financial Statements.)*

Maintenance and repair expense increased to $45.8 million in 1975 from $40.3 million in 1974. This increase of $5.5 million, or 13.6 percent, primarily reflects higher material and wage costs incurred in the normal course of operations.

Payroll tax expense in 1975 increased by $3.3 million, or 20.5 percent, to $19.4 million over $16.1 million last year. Payroll tax expense increased by $2.6 million, or 19.2 percent, in 1974 over 1973 to $16.1 million from $13.5 million. The higher payroll tax expense in both this year and last year relates primarily to higher wages and higher tax rates. These higher payroll tax expenses account for the increase in the total tax expense, other than on income.

Depreciation expense increased in 1975 to $25.1 million from $22.6 million in 1974 for an increase of $2.5 million, or 11.3 percent. This increase reflects the higher base of capital assets resulting from increased capital expenditures.

## Statements of Consolidated Income

| Fiscal year ended | April 30, 1975 (52 weeks) | May 1, 1974 (52 weeks) |
|---|---|---|
| Net sales | $1,662,701,000 | $1,438,251,000 |
| Cost of products sold | 1,097,093,000 | 939,565,000 |
| Gross profit | 565,608,000 | 498,686,000 |
| Selling, general and administrative expenses, including provision for management incentive plan of $4,212,000 ($3,887,000 in 1974) | 428,970,000 | 392,692,000 |
| Operating profit | 136,638,000 | 105,994,000 |
| Other income, net | 12,789,000 | 9,395,000 |
| | 149,427,000 | 115,389,000 |
| Interest expense | 31,027,000 | 21,077,000 |
| Income before income taxes | 118,400,000 | 94,312,000 |
| Provision for income taxes | 49,958,000 | 36,730,000 |
| | 68,442,000 | 57,582,000 |
| Income applicable to minority interests | 1,875,000 | 2,062,000 |
| Income before extraordinary item | 66,567,000 | 55,520,000 |
| Extraordinary item, less estimated income taxes | — | 8,800,000 |
| Net income | $ 66,567,000 | $ 64,320,000 |
| Per common share amounts: | | |
| Income before extraordinary item | $ 4.40 | $ 3.67 |
| Extraordinary item | — | .59 |
| Net income | $ 4.40 | $ 4.26 |

See notes to consolidated financial statements beginning on page 38.

## Consolidated Balance Sheets

| Assets | April 30, 1975 | May 1, 1974 |
|---|---|---|
| *Current Assets:* | | |
| Cash | $ 18,569,000 | $ 9,363,000 |
| Marketable securities, at cost which approximates market | 62,073,000 | 72,274,000 |
| Accounts and notes receivable: | | |
| Trade | 140,623,000 | 110,187,000 |
| Sundry | 18,905,000 | 36,841,000 |
| | 159,528,000 | 147,028,000 |
| Less Allowance for doubtful accounts | 1,926,000 | 1,208,000 |
| | 157,602,000 | 145,820,000 |
| Inventories | 518,199,000 | 418,967,000 |
| Prepaid expenses | 20,211,000 | 18,240,000 |
| Total current assets | 776,654,000 | 664,664,000 |
| *Investments and Other Assets:* | | |
| Investments in and advances to entities, less allowance for losses of $2,522,000 ($678,000 in 1974) | 39,508,000 | 28,203,000 |
| Excess of investments in consolidated subsidiaries over net assets at acquisition | 14,117,000 | 13,104,000 |
| Miscellaneous other assets | 10,061,000 | 4,709,000 |
| | 63,686,000 | 46,016,000 |
| *Property, Plant and Equipment, at Cost:* | | |
| Land | 15,127,000 | 14,218,000 |
| Buildings and leasehold improvements | 153,760,000 | 144,010,000 |
| Equipment, vessels and fixtures | 341,008,000 | 307,876,000 |
| | 494,768,000 | 451,886,000 |
| Less Accumulated depreciation | 209,440,000 | 192,413,000 |
| | 285,328,000 | 259,473,000 |
| Lug boxes, baskets and pallets, less amortization | 3,457,000 | 3,010,000 |
| Net property, plant and equipment | 303,912,000 | 276,701,000 |
| | $1,144,252,000 | $987,381,000 |

See notes to consolidated financial statements beginning on page 38.

| *Liabilities and Shareholders' Equity* | April 30, 1975 | May 1, 1974 |
|---|---|---|
| ***Current Liabilities:*** | | |
| Short-term debt | $ 140,043,000 | $132,235,000 |
| Portion of long-term debt due within one year | 4,057,000 | 3,767,000 |
| Accounts payable: | | |
| Related to suppliers | 138,936,000 | 113,670,000 |
| Sundry | 15,793,000 | 12,511,000 |
| | 154,729,000 | 126,181,000 |
| Accrued liabilities | 57,836,000 | 46,129,000 |
| Federal, foreign and state income taxes | 41,571,000 | 32,448,000 |
| Total current liabilities | 398,236,000 | 340,760,000 |
| ***Long-term Debt and Other Liabilities*** | | |
| Long-term debt | 150,951,000 | 130,615,000 |
| Incentive profit-sharing plans | 7,375,000 | 8,193,000 |
| Deferred Federal and foreign income taxes | 24,848,000 | 18,970,000 |
| Future United Kingdom income taxes | 22,797,000 | 10,359,000 |
| Sundry | 14,373,000 | 9,659,000 |
| | 220,344,000 | 177,796,000 |
| Reserve for international operations | 4,683,000 | 6,663,000 |
| Minority interests | 18,193,000 | 14,728,000 |
| ***Shareholders' Equity:*** | | |
| Capital stock: | | |
| Cumulative preferred | 2,833,000 | 2,921,000 |
| Second cumulative preferred, having an involuntary liquidation value of $100 per share, or $940,000 ($1,005,000 in 1974), based on shares outstanding: | | |
| $3.50 first series | 10,000 | 10,000 |
| $3.50 second series | 164,000 | 175,000 |
| Common stock | 62,894,000 | 62,883,000 |
| | 65,901,000 | 65,989,000 |
| Additional capital | 62,812,000 | 56,932,000 |
| Retained earnings | 374,091,000 | 325,165,000 |
| | 502,804,000 | 448,086,000 |
| Less Treasury shares at cost | 8,000 | 652,000 |
| | 502,796,000 | 447,434,000 |
| | $1,144,252,000 | $987,381,000 |

## Statements of Consolidated Additional Capital and Retained Earnings

| Fiscal year ended | April 30, 1975 | May 1, 1974 |
|---|---|---|
| *Additional Capital* | | |
| Amount at beginning of year | $ 56,932,000 | $ 56,911,000 |
| Excess of: | | |
| Proceeds received over par value of shares issued (Italian subsidiary) | 5,910,000 | — |
| Cost of treasury shares reissued under employees' incentive stock option plans over option price | (112,000) | (85,000) |
| Par value over cost of preference stock retired (United Kingdom subsidiary) | 41,000 | 58,000 |
| Par value of preferred shares over par value of common shares issued in exchange therefor | 1,000 | 3,000 |
| Par value over cost of cumulative preferred stock retired | 40,000 | 45,000 |
| Amount at end of year | $ 62,812,000 | $ 56,932,000 |
| *Retained Earnings* | | |
| Amount at beginning of year | $325,165,000 | $277,418,000 |
| Add Net income for the year | 66,567,000 | 64,320,000 |
| | 391,732,000 | 341,738,000 |
| Deduct Dividends paid: | | |
| On preferred stock: | | |
| 3.65% series | 105,000 | 108,000 |
| $3.50 series | 34,000 | 38,000 |
| | 139,000 | 146,000 |
| On common stock, $1.16 per share ($1.09 in 1974) | 17,502,000 | 16,427,000 |
| | 17,641,000 | 16,573,000 |
| Amount at end of year | $374,091,000 | $325,165,000 |

See notes to consolidated financial statements beginning on page 38.

## *Statements of Consolidated Changes in Financial Position*

| Fiscal year ended | April 30, 1975 | May 1, 1974 |
|---|---|---|
| ***Funds Provided:*** | | |
| Income before extraordinary item | $ 66,567,000 | $ 55,520,000 |
| Charges to income not requiring funds: | | |
| Depreciation | 25,090,000 | 22,535,000 |
| Provision for international operations | 1,222,000 | 2,000,000 |
| Deferred income taxes | 5,878,000 | 3,602,000 |
| Future income taxes | 13,017,000 | — |
| Income applicable to minority interests | 1,875,000 | 2,062,000 |
| Other | 4,612,000 | 791,000 |
| Funds from operations before extraordinary item | 118,261,000 | 86,510,000 |
| Extraordinary item | — | 8,800,000 |
| Long-term borrowings | 24,633,000 | 3,914,000 |
| Issuance of common stock by Italian subsidiary | 9,568,000 | — |
| Other items, net | 532,000 | 872,000 |
| Total funds provided | 152,994,000 | 100,096,000 |
| ***Funds Used:*** | | |
| Additions to property, plant and equipment | 57,219,000 | 44,096,000 |
| Less Retirements and disposals | (4,918,000) | (3,943,000) |
| | 52,301,000 | 40,153,000 |
| Acquisition of Ocean Fisheries | 17,500,000 | — |
| Increase in investments and other long-term assets | 68,000 | 68,000 |
| Reduction in long-term debt | 4,297,000 | 3,198,000 |
| Acquisition of treasury shares | — | 792,000 |
| Dividends paid | 17,641,000 | 16,573,000 |
| Decrease in other liabilities | 6,673,000 | 1,473,000 |
| Total funds used | 98,480,000 | 62,257,000 |
| Increase in working capital | $ 54,514,000 | $ 37,839,000 |
| ***Changes in Working Capital:*** | | |
| Increase (decrease) in current assets: | | |
| Cash and marketable securities | $ (995,000) | $ (15,206,000) |
| Accounts and notes receivable | 11,782,000 | 30,565,000 |
| Inventories | 99,232,000 | 71,261,000 |
| Prepaid expenses | 1,971,000 | (1,399,000) |
| | 111,990,000 | 85,221,000 |
| Increase in current liabilities: | | |
| Short-term debt | 8,098,000 | 16,740,000 |
| Payables | 28,548,000 | 10,690,000 |
| Accrued liabilities | 11,707,000 | 8,630,000 |
| Federal, foreign and state income taxes | 9,123,000 | 11,322,000 |
| | 57,476,000 | 47,382,000 |
| Increase in working capital | $ 54,514,000 | $ 37,839,000 |

See notes to consolidated financial statements beginning on page 38.

## *1. Significant Accounting Policies*

*Accounting Principles* The consolidated financial statements have been prepared using generally accepted accounting principles followed in the United States.

*Principles of Consolidation* The consolidated financial statements include the accounts of the company and all significant domestic and foreign subsidiaries except for subsidiaries owning and operating fishing vessels, which are accounted for on the equity method. These latter subsidiaries, together with investments in other entities also primarily engaged in the ownership or operation of fishing vessels, are carried at cost plus equity in undistributed earnings since acquisition. Equity income is reflected as a reduction of cost of products sold after appropriate provision for income taxes. All material intercompany transactions have been eliminated from the consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the net assets acquired subsequent to fiscal 1971 is being amortized over 40 years, and the excess arising prior to fiscal 1972 is not being amortized. The portion subject to amortization was $5,294,000 at April 30, 1975 ($3,863,000 at May 1, 1974).

*Translation of Foreign Currencies* Current assets and liabilities are translated at the exchange rates in effect at the end of the fiscal year. Noncurrent assets and liabilities are translated at the exchange rates in effect when the transactions occurred except for other assets, deferred and future income taxes and sundry liabilities, which are translated at the same exchange rates as current assets and liabilities. Operating accounts are translated at average rates of exchange prevailing during the year except depreciation, which is translated at the rates in effect when the related assets were acquired. Unrealized gains or losses on the translation of foreign currencies are generally credited or charged to the reserve for international operations. Gains on forward exchange contracts are recognized when realized and losses are recognized when anticipated. See note 9 for additional information regarding exchange adjustments.

*Inventories* Inventories are stated at the lower of cost (principally the average method) or replacement market.

*Property, Plant and Equipment* Property, plant and equipment are carried at cost. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed in the year incurred. Property disposed of is removed from the asset and accumulated depreciation accounts, with the gain or loss recognized in the current income statement.

*Depreciation* For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives as follows:

| | |
|---|---|
| Buildings | 5-50 years |
| Equipment and Fixtures | 2-25 years |
| Vessels and Automotive Equipment | 3-20 years |

Accelerated depreciation methods are generally used for income tax purposes.

*Income Taxes* The company has not provided for deferred taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, the credit for foreign taxes already paid generally offsets applicable U.S. income taxes. In those cases where such foreign taxes do not offset U.S. income taxes, appropriate provisions are included in the Statements of Consolidated Income. Deferred income taxes result principally from differences between depreciation deducted for income tax purposes and for financial statement reporting. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is acquired and placed into service.

*Retirement Systems* It is the policy of the company and its consolidated subsidiaries to fund pension costs as accrued. Prior service costs are amortized over varying periods not exceeding 40 years.

*Research and Development Expenses* Expenditures for agricultural, processing and marketing research and development are charged against income as incurred.

*Interest Expenses* Expenditures for interest are charged against income as accrued and are not capitalized in the consolidated financial statements.

*Per Common Share Amounts* Income per common share has been computed by dividing income applicable to common shareholders (that is, after deducting preferred dividends) by 15,088,743 (15,069,813 in 1974), which represents the weighted average number of shares of common stock outstanding during the respective years. Fully diluted income per common share, which would take into consideration the convertibility of a second cumulative preferred stock and outstanding stock options, would not significantly differ from primary amounts per share.

## *2. Short-Term Debt*

| | 1975 | 1974 |
|---|---|---|
| Amount outstanding at year end | $140,043,000 | $132,235,000 |
| Average interest rate at year end | 8.7% | 10.4% |
| Average amount outstanding during period | $185,748,000 | $127,894,000 |
| Average interest rate for period | 11.3% | 9.3% |
| Maximum amount outstanding at any month end during period | $238,307,000 | $152,685,000 |
| Lines of credit available at year end | $325,224,000 | $187,000,000 |
| Lines of credit unused at year end | $185,181,000 | $ 54,765,000 |

Amounts outstanding at each year end consist principally of bank borrowings except for commercial paper borrowings of $6,064,000 (at a rate of 11.2 percent) by the company's Australian subsidiary at the end of 1975. The average amounts outstanding were computed on the basis of month-end balances, and the average interest rates were computed by dividing the actual interest expense by the previously determined average amounts outstanding. Lines of credit at the end of 1975 include lines available through the revolving bank credit agreement discussed in more detail in note 3. Other lines of credit are typically renewed from year to year and may be withdrawn or canceled by either party. The company generally maintains cash balances of 10 percent of the line of credit with domestic banks. These balances are not subject to withdrawal restrictions.

## *3. Long-Term Debt*

Details of long-term debt at April 30, 1975 and May 1, 1974 follow.

| | Interest percent | Maturity (fiscal year) | 1975 | 1974 |
|---|---|---|---|---|
| United States Dollars: | | | | |
| Promissory notes | to 12 % | 1976-1990 | $ 7,547,000 | $ 4,007,000 |
| Promissory notes | 5¼ | 1976-1984 | 9,000,000 | 10,000,000 |
| Promissory notes | 6⅝ | 1979-1993 | 40,000,000 | 40,000,000 |
| Debentures | 7¼ | 1984-1998 | 50,000,000 | 50,000,000 |
| Mortgages and contracts | to 7 | 1976-2000 | 4,058,000 | 4,684,000 |
| | | | 110,605,000 | 108,691,000 |
| Foreign Currencies (U.S. dollar equivalents): | | | | |
| Promissory notes: | | | | |
| British pounds | to 11⅜ | 1976-1981 | 16,499,000 | 152,000 |
| Portuguese escudos | 7¾ | 1976-1977 | 484,000 | 719,000 |
| Australian dollars | 4¾ | 1976-1977 | 4,926,000 | 5,348,000 |
| Italian lire | to 4½ | 1976-1988 | 15,509,000 | 12,077,000 |
| Debentures: | | | | |
| British pounds | to 6 | 1976-1985 | 6,897,000 | 7,334,000 |
| Mortgages | to 9 | 1977 | 88,000 | 61,000 |
| | | | 44,403,000 | 25,691,000 |
| Total long-term debt | | | 155,008,000 | 134,382,000 |
| Less Portion due within one year: | | | | |
| United States dollars | | | 2,436,000 | 2,048,000 |
| Foreign currencies | | | 1,621,000 | 1,719,000 |
| | | | 4,057,000 | 3,767,000 |
| | | | $150,951,000 | $130,615,000 |

Principal payments due on consolidated long-term debt outstanding at April 30, 1975 during the four years succeeding 1976 are as follows:

| | |
|---|---|
| 1977 | $12,551,000 |
| 1978 | $ 8,759,000 |
| 1979 | $ 9,792,000 |
| 1980 | $ 9,413,000 |

Under the most restrictive debt covenant (the indenture relating to the company's 7¼ percent debentures), retained earnings of $135,000,000 at April 30, 1975 ($86,000,000 at May 1, 1974) were available for dividends.

Property, plant and equipment of domestic and foreign subsidiaries amounting to $63,431,000 are subject to liens to secure $22,134,000 of indebtedness of such subsidiaries. In addition, current assets of $208,601,000 and property, plant and equipment of $81,131,000 of certain foreign subsidiaries could become subject to liens to secure indebtedness of $11,863,000 in the event of default under the provisions of the related loan agreements.

Effective December 31, 1974, the company entered into a bank credit agreement with a group of 13 banks. Under the terms of this agreement, the banks are committed to lend, on a revolving basis, to the company at any time prior to December 31, 1977 a maximum of $100,000,000 with provision for conversion at that time of up to the full commitment into a four-year term loan payable in 16 equal quarterly installments through December 31, 1981. The company has agreed to pay a commitment fee of ½ percent per annum on the average daily unused portion of the commitment. The interest rate on the revolving loans will be the prime interest rate, and interest on the four-year term loan will be the prime rate plus ¼ percent through December 31, 1979 and the prime rate plus ½ percent thereafter until maturity. As of April 30, 1975, no borrowings had been made under this agreement. The agreement provides for the maintenance of working capital of not less than $250,000,000 (working capital was $378,418,000 at April 30, 1975) and imposes restrictions on funded debt and domestic lease rentals. These are generally less restrictive than those contained in other existing debt agreements.

Long-term debt of unconsolidated subsidiaries, incurred primarily to acquire fishing vessels, aggregated $19,634,000 at April 30, 1975. Principal payments on such long-term debt for the five years succeeding 1975 are as follows:

| | |
|---|---|
| 1976 | $4,141,000 |
| 1977 | $3,008,000 |
| 1978 | $2,505,000 |
| 1979 | $7,147,000 |
| 1980 | $1,633,000 |

The company has guaranteed long-term debt of such unconsolidated subsidiaries together with debt of other third parties amounting to $7,816,000 at April 30, 1975.

## *4. Capital Stock*

The number of shares authorized, outstanding, issued, retired or converted, and the par values of the company's capital stock appear in the table following this note.

The 3.65% series cumulative preferred stock is callable or redeemable through the sinking fund at $102.75 per share. Payments (or open market purchases of such stock) aggregating $200,000 are required to be made to the sinking fund on or before October 1 of each year. The company has fulfilled its sinking fund obligation through fiscal 1976.

The $3.50 first series second cumulative preferred stock may be redeemed by the company at $100 per share. On or before each August 1, so long as any shares of this series are outstanding, the company (as and for an annual sinking fund) shall have retired, through redemption, purchase or otherwise, a specified portion of the total number of shares of this series outstanding (659 shares) at the close of business on June 1, 1973. That portion shall be calculated at the rate of 2 percent per year, on a cumulative basis.

The $3.50 second series cumulative preferred stock is convertible into common stock at any time prior to February 1, 1976 at an initial conversion rate of four shares of common stock or may be redeemed by the company at $100 per share. On or before April 1, 1976, and on or before each April 1 thereafter, so long as any shares of this series are

outstanding, the company (as and for an annual sinking fund) shall have retired, through redemption, purchase or otherwise, a specified portion of the total number of shares of this series outstanding at the close of business on February 1, 1976. That portion shall be calculated at the rate of 2 percent per year, on a cumulative basis.

At April 30, 1975 and May 1, 1974, there were authorized, but unissued, 100,000 shares of cumulative preferred stock for which the series has not been designated, 1,755 shares of second cumulative preferred stock for which the series has not been designated, and 250,000 shares of third cumulative preferred stock having a par value of $100 per share.

At April 30, 1975, 377,656 shares (396,448 at May 1, 1974) of common stock were reserved for conversion of $3.50 second series cumulative preferred stock outstanding and for outstanding options or for the granting of options under the employees' stock option plans.

| | Preferred stocks | | | | |
|---|---|---|---|---|---|
| | | Second cumulative preferred | | | |
| Year ended May 1, 1974: | Cumulative preferred 3.65% series $100 par | $3.50 First series $18.50 par | $3.50 Second series $18.50 par | Common stock $4.16⅔ par | Treasury stock |
| Outstanding at beginning | 30,300 | 2,610 | 11,219 | 15,076,333 | 23,798 |
| Reacquired and retired | (1,092) | (98) | — | — | — |
| Converted to common stock | — | (1,952) | (1,732) | — | — |
| Treasury stock acquired | — | — | — | — | 19,600 |
| Issued: | | | | | |
| For second cumulative preferred stock: | | | | | |
| $3.50 first series | — | — | — | 8,670 | — |
| $3.50 second series | — | — | — | 6,928 | — |
| On exercise of stock options | — | — | — | — | (27,000) |
| Outstanding at end | 29,208 | 560 | 9,487 | 15,091,931 | 16,398 |
| Authorized at end | 29,208 | 560 | 9,487 | 20,000,000 | — |
| Year ended April 30, 1975: | | | | | |
| Outstanding at beginning | 29,208 | 560 | 9,487 | 15,091,931 | 16,398 |
| Reacquired and retired | (878) | — | — | — | — |
| Converted to common stock | — | — | (648) | — | — |
| Issued: | | | | | |
| For second cumulative preferred stock: | | | | | |
| $3.50 second series | — | — | — | 2,592 | — |
| On exercise of stock options | — | — | — | — | (16,200) |
| Outstanding at end | 28,330 | 560 | 8,839 | 15,094,523 | 198 |
| Authorized at end | 28,330 | 560 | 8,839 | 20,000,000 | — |

## 5. Employees' Stock Option and Savings Plans and Management Incentive Plan

The 1970 Stock Option Plan (1970 Plan) permits the granting of options to purchase a maximum of 300,000 shares of common stock of the company. The option price must not be less than the fair market value at the time the options are granted for qualified options and nonqualified options to purchase unrestricted shares. The price cannot be less than the fair value as determined by the Executive Compensation Committee at the time options are granted for nonqualified options to purchase restricted shares. The Committee determines the period during which options are exercisable, which may not exceed five years for qualified options or 10 years for nonqualified options. No options may be granted after June 9, 1980, the expiration date of the plan.

The qualified employees' incentive stock option plan (Plan No. 2) permits the granting of options on shares of common stock of the company at not less than the fair market value at the time the options are granted. The options are exercisable at any time within five years from the date of grant but no later than July 9, 1975, at which date the plan expires.

Data regarding options granted and exercised and shares reserved for additional grants (combined plans) appear in the table below.

| | | Fair market value at date of grant | |
|---|---|---|---|
| For the year ended May 1, 1974: | Shares | Range | Total |
| Shares under option at beginning | 99,645 | \$31 — \$42⅛ | \$3,752,753 |
| Options granted | 122,442 | 38 — 51½ | 5,204,128 |
| Options exercised | 27,000 | 31 — 40 | 882,225 |
| Shares under option at end | 195,087 | \$31 — \$51½ | \$8,074,656 |
| Shares reserved for granting of additional options | 163,413 | | |
| For the year ended April 30, 1975: | | | |
| Shares under option at beginning | 195,087 | \$31 — \$51½ | \$8,074,656 |
| Options granted | 34,963 | 40 — 40⅜ | 1,405,297 |
| Options exercised | 16,200 | 31 — 43¼ | 531,750 |
| Shares under option at end | 213,850 | \$38 — \$51½ | \$8,948,203 |
| Shares reserved for granting of additional options | 128,450 | | |

The fair market value per share at the dates on which options were exercised ranged from \$43¾ to \$47⅞ in 1975 and from \$41½ to \$51 in 1974, and the total fair market values of those options at the same dates were \$727,000 and \$1,220,000, respectively.

The Management Incentive Plan, adopted in fiscal 1969 and amended in fiscal 1974, covers certain key employees of the company and its subsidiaries. Participants in the plan may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any fiscal year.

On September 11, 1974, the shareholders approved an Employee Savings Plan whereby participants may elect to make savings deposits on a voluntary basis and the company will contribute on behalf of each participating employee 50 percent of the amount contributed by such employee. The plan covers the salaried employees of the company and its principal United States subsidiaries.

## *6. Income Taxes*

The following constitutes the provisions for Federal, State, U.S. Possessions and foreign taxes on income for 1975 and 1974.

| | 1975 | 1974 |
|---|---|---|
| Federal, State and U.S. Possessions: | | |
| Current | $24,967,000 | $13,025,000 |
| Deferred | 1,813,000 | 1,347,000 |
| | 26,780,000 | 14,372,000 |
| Foreign: | | |
| Current | 19,113,000 | 20,103,000 |
| Deferred | 4,065,000 | 2,255,000 |
| | 23,178,000 | 22,358,000 |
| | $49,958,000 | $36,730,000 |

The current provision represents the taxes on that year's income paid or payable within the next year, except for the company's United Kingdom subsidiary, which pays its taxes in the second following year, as provided by United Kingdom tax regulations. The current provision for Federal taxes in 1975 includes a reduction for the investment tax credit amounting to $969,000 ($929,000 in 1974).

The deferred provision represents the taxes on that year's income due to be paid beyond the next year as a result of timing differences in the recording of expenses for financial statement and tax return purposes. The deferred provision primarily represents the tax effect of using accelerated methods of depreciation for tax purposes, as against the straight-line method used for financial reporting.

The provisions for taxes on income for 1975 and 1974 were 42.2 percent and 38.9 percent, respectively, of pretax income. The following reconciles the United States statutory rate with the effective rates.

| | 1975 | 1974 |
|---|---|---|
| United States statutory tax rate | 48.0% | 48.0% |
| Investment tax credit | (0.8) | (1.0) |
| Income of foreign subsidiaries taxed at foreign tax rates | 1.6 | (1.0) |
| Income of U.S. Possessions subsidiaries taxed at possession tax rates | (9.5) | (8.5) |
| State income taxes (net of Federal income tax benefit) | 1.4 | 1.0 |
| Other | 1.5 | 0.4 |
| | 42.2% | 38.9% |

The company files consolidated Federal income tax returns, and such returns have been settled for all years through 1971.

Payment of certain income taxes has been postponed by the United Kingdom government, which accounts for the increase in the future United Kingdom income tax liability as shown on the Consolidated Balance Sheets. When these taxes become payable, the appropriate amount will be transferred to the current liability account.

## 7. Retirement Systems

The company and the majority of its domestic and foreign subsidiaries have pension plans covering substantially all employees. The total pension expense for 1975 was $13,736,000 ($10,312,000 in 1974). The increase in expense is attributable primarily to improved pension benefits in the United Kingdom subsidiary and the updating of actuarial assumptions and adjustments for declines in market value of the pension fund investments of the U.S. plans.

As of the most recent valuation date, the actuarially computed vested benefits of the plans covering employees of the company and its significant domestic subsidiaries exceeded fund assets by approximately $12,000,000. The unfunded past service cost of the company and its consolidated subsidiaries approximated $55,000,000 at April 30, 1975.

In connection with the Employee Retirement Income Security Act of 1974, the company has been informed by its actuary that only minor changes are needed to bring the United States pension plans into compliance with provisions of the Act and that future pension costs will not be significantly affected by such changes.

## 8. Extraordinary Item

The extraordinary credit in 1974 of $8,800,000 resulted from the completion of the phase-out of the company's Mexican operations on a more favorable basis than was originally anticipated and from payments received and expected as final compensation in connection with the expropriation of certain assets of a Peruvian subsidiary in May, 1973. This credit is after estimated Federal income taxes of $7,700,000.

## 9. Foreign Operations

A condensed balance sheet of consolidated foreign subsidiaries appears below.

| | April 30, 1975 | May 1, 1974 |
|---|---|---|
| Current assets | $351,768,000 | $277,245,000 |
| Current liabilities | 196,438,000 | 151,884,000 |
| Working capital | 155,330,000 | 125,361,000 |
| Fixed and other assets | 163,120,000 | 147,385,000 |
| Long-term debt and other liabilities | (119,462,000) | (80,186,000) |
| Net assets | $198,988,000 | $192,560,000 |

Realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions.

Undistributed earnings of foreign subsidiaries amounted to $165,242,000 at April 30, 1975 ($160,082,000 at May 1, 1974).

The company maintains a reserve for international operations to which unrealized gains resulting from currency fluctuations are credited. The reserve is used to absorb unrealized losses caused by currency fluctuations and abnormal losses incurred by foreign companies. During

1975, unrealized losses of $1,980,000 were charged to the reserve and $1,222,000 representing the unrealized loss resulting from the official devaluation of the Australian dollar was charged to operations. In 1974, $2,000,000 was charged to operations to provide for increased exposure of foreign assets and $58,000 in unrealized gains was credited to the reserve.

Realized gains and losses are credited or charged directly to income. In 1975, realized losses amounting to $77,000 were charged to earnings ($1,156,000 in 1974).

The company translates long-term debt payable in foreign currencies at the exchange rates in effect when the liabilities were incurred. If these debts had been translated at the exchange rates in effect at April 30, 1975, long-term debt would have increased by $557,000 ($1,490,000 at May 1, 1974) and the reserve for international operations would have decreased by corresponding amounts at the respective dates.

Unperformed forward exchange contracts were insignificant at April 30, 1975 and May 1, 1974.

## *10. Inventories*

The inventories at April 30, 1975, May 1, 1974 and May 2, 1973 are summarized as follows:

| | 1975 | 1974 | 1973 |
|---|---|---|---|
| Finished goods | $322,156,000 | $255,390,000 | $261,226,000 |
| Work-in-process | 36,847,000 | 24,983,000 | 13,098,000 |
| Ingredient and packaging material | 159,196,000 | 138,594,000 | 73,382,000 |
| | $518,199,000 | $418,967,000 | $347,706,000 |

The above amounts were used in determining cost of products sold for 1975 and 1974.

## *11. Leases*

The net rental commitments under all noncancelable leases as of April 30, 1975 are shown in the following tabulation.

| Period | Real estate | Equipment | Total |
|---|---|---|---|
| 1976 | $ 3,998,000 | $ 3,352,000 | $ 7,350,000 |
| 1977 | 3,877,000 | 2,707,000 | 6,584,000 |
| 1978 | 3,894,000 | 2,107,000 | 6,001,000 |
| 1979 | 3,699,000 | 1,256,000 | 4,955,000 |
| 1980 | 3,323,000 | 1,102,000 | 4,425,000 |
| 1981-1985 | 14,966,000 | 1,091,000 | 16,057,000 |
| 1986-1990 | 12,442,000 | 244,000 | 12,686,000 |
| 1991-1995 | 5,570,000 | 19,000 | 5,589,000 |
| 1996 and thereafter | 6,205,000 | — | 6,205,000 |

Noncapitalized financing leases are not material in relation to the company's operations.

## *12. Supplementary Data*

Set forth below is a summary of certain other financial statement data.

| | 1975 | 1974 |
|---|---|---|
| Accrued liabilities (at end of year): | | |
| Salaries and wages | $ 12,970,000 | $ 12,174,000 |
| Taxes, other than on income | 5,379,000 | 5,243,000 |
| Interest | 2,627,000 | 1,663,000 |
| Other | 36,860,000 | 27,049,000 |
| | $ 57,836,000 | $ 46,129,000 |
| Minority interests (at end of year): | | |
| Preference shares—at par value | $ 3,278,000 | $ 3,585,000 |
| Common shareholders' equity | 14,915,000 | 11,143,000 |
| | $ 18,193,000 | $ 14,728,000 |
| Supplemental income statement information (for the year): | | |
| Maintenance and repair expense | $ 45,807,000 | $ 40,332,000 |
| Depreciation expense | $ 25,090,000 | $ 22,535,000 |
| Tax expense, other than on income: | | |
| Payroll taxes | $ 19,358,000 | $ 16,069,000 |
| Other | 9,852,000 | 9,249,000 |
| | $ 29,210,000 | $ 25,318,000 |
| Rent expense | $ 13,716,000 | $ 12,600,000 |
| Advertising expense | $136,233,000 | $131,065,000 |
| Other income, net (for the year): | | |
| Interest income | $ 8,059,000 | $ 8,289,000 |
| Gain from settlement of fire losses | 5,431,000 | — |
| Other items, net | (701,000) | 1,106,000 |
| | $ 12,789,000 | $ 9,395,000 |

## *13. Other Matters*

Certain claims filed against the company and/or its subsidiaries have not been finally adjudicated. In the opinion of management, these claims, when finally determined, will not have a material adverse effect on the consolidated financial statements.

Contracts and purchase order commitments of approximately $11,708,000 at April 30, 1975 have been executed in connection with capital assets.

For information concerning acquisitions made during the year, see page 31 of the Financial Review and Management's Analysis.

## *Accountants' Report*

The Shareholders
H. J. Heinz Company:

We have examined the consolidated balance sheets of H. J. Heinz Company and consolidated subsidiaries as of April 30, 1975 and May 1, 1974 and the related statements of income, additional capital, retained earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements of certain subsidiaries, which are included in the consolidated statements, were examined by other independent public accountants whose reports have been furnished to us. The net assets and net sales of such subsidiaries constitute approximately 21 percent and 24 percent, respectively (22 percent and 23 percent, respectively, in 1974), of the related consolidated figures.

In our opinion, based on our examination and the aforementioned reports of other independent public accountants, the above mentioned financial statements present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries as of April 30, 1975 and May 1, 1974, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Henry W. Oliver Building
Pittsburgh, Pennsylvania 15222
June 23, 1975

## 10-Year Summary of Operations and Related Data

| Fiscal Year | 1975 | 1974 | 1973 |
|---|---|---|---|
| *Summary of Operations:* | | | |
| Net sales | $ 1,662,701 | $ 1,438,251 | $ 1,205,912 |
| Cost of products sold | 1,097,093 | 939,565 | 772,525 |
| Interest expense | 31,027 | 21,077 | 13,813 |
| Provision for income taxes | 49,958 | 36,730 | 30,913 |
| Income from continuing operations | 66,567 | 55,520 | 50,082 |
| Loss from discontinued and expropriated operations | — | — | 3,530 |
| Income before extraordinary items | 66,567 | 55,520 | 46,552 |
| Extraordinary items | — | 8,800 | (25,000) |
| Net income | 66,567 | 64,320 | 21,552 |
| Per common share amounts: | | | |
| Income from continuing operations | 4.40 | 3.67 | 3.31 |
| Loss from discontinued and expropriated operations | — | — | .23 |
| Income before extraordinary items | 4.40 | 3.67 | 3.08 |
| Extraordinary items | — | .59 | (1.66) |
| Net income | 4.40 | 4.26 | 1.42 |
| *Other Data:* | | | |
| Dividends paid: | | | |
| Common—per share | 1.16 | 1.09 | 1.05 |
| —Total | 17,502 | 16,427 | 15,814 |
| Preferred—Total | 139 | 146 | 165 |
| Additions to property, plant and equipment | 57,219 | 44,096 | 48,322 |
| Depreciation | 25,090 | 22,535 | 20,950 |
| Shareholders' equity | 502,796 | 447,434 | 399,607 |
| Debt (long-term and short-term) | 295,051 | 266,617 | 249,161 |
| Average number of common shares outstanding | 15,088,743 | 15,069,813 | 15,060,858 |
| Book value per common share | 33.06 | 29.42 | 26.25 |
| Price range of common stock: | | | |
| High | 51½ | 52¼ | 46¼ |
| Low | 27 | 37¼ | 38 |
| Sales—domestic vs. foreign (%): | | | |
| Domestic | 58 | 59 | 58 |
| Foreign | 42 | 41 | 42 |
| Income—domestic vs. foreign (%): | | | |
| Domestic | 71 | 57 | 53 |
| Foreign | 29 | 43 | 47 |

Notes:

1. This summary should be read in conjunction with the financial statements and footnotes thereto on pages 33 through 46 and the Financial Review and Management's Analysis on pages 26 through 32.
2. All dollar amounts are in thousands except per share data.
3. Fully diluted earnings per share have not been shown since during the most recent five fiscal years it would not be significantly different from primary earnings per share.
4. The losses from discontinued and expropriated operations are net of tax benefits (provisions) in 1971, 1972 and 1973 of ($1,657), $281 and $598, respectively.

| 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|
| $ 1,098,862 | $ 939,014 | $ 838,136 | $ 758,861 | $ 711,192 | $ 671,810 | $ 602,830 |
| 700,530 | 591,581 | 530,816 | 480,831 | 454,999 | 444,527 | 399,439 |
| 11,463 | 10,325 | 12,204 | 10,095 | 8,150 | 7,332 | 5,192 |
| 30,702 | 25,159 | 22,198 | 19,254 | 19,631 | 14,558 | 14,009 |
| 44,679 | 38,171 | 33,090 | 28,349 | 25,629 | 23,117 | 21,209 |
| 2,392 | 503 | 1,384 | 762 | 1,225 | 1,587 | 905 |
| 42,287 | 37,668 | 31,706 | 27,587 | 24,404 | 21,530 | 20,304 |
| — | — | — | 59 | (1,910) | — | — |
| 42,287 | 37,668 | 31,706 | 27,646 | 22,494 | 21,530 | 20,304 |
| | | | | | | |
| 2.96 | 2.56 | 2.44 | 2.27 | 2.10 | 1.89 | 1.72 |
| .16 | .03 | .10 | .06 | .11 | .13 | .07 |
| 2.80 | 2.53 | 2.34 | 2.21 | 1.99 | 1.76 | 1.65 |
| — | — | — | .01 | (.16) | — | — |
| 2.80 | 2.53 | 2.34 | 2.22 | 1.83 | 1.76 | 1.65 |
| | | | | | | |
| 1.01 | .98 | .88 | .79½ | .67½ | .60 | .60 |
| 15,178 | 14,468 | 11,573 | 9,506 | 7,718 | 6,839 | 7,062 |
| 184 | 314 | 635 | 1,187 | 1,512 | 1,535 | 1,362 |
| 28,067 | 30,449 | 40,047 | 28,810 | 25,065 | 31,081 | 25,041 |
| 20,143 | 19,667 | 16,788 | 15,272 | 13,747 | 13,662 | 12,962 |
| 394,519 | 366,969 | 341,005 | 275,610 | 254,522 | 240,549 | 227,333 |
| 196,309 | 184,104 | 165,414 | 170,768 | 154,420 | 142,638 | 115,791 |
| 15,025,539 | 14,777,214 | 13,252,859 | 11,930,741 | 11,487,092 | 11,402,438 | 11,397,738 |
| 25.89 | 24.10 | 22.63 | 20.21 | 18.46 | 17.27 | 16.12 |
| | | | | | | |
| 47¼ | 45⅛ | 39 | 36 | 25⅜ | 20⅝ | 24⅝ |
| 38¾ | 28¾ | 28¼ | 23½ | 17 | 13⅞ | 19¼ |
| | | | | | | |
| 57 | 59 | 58 | 58 | 55 | 53 | 52 |
| 43 | 41 | 42 | 42 | 45 | 47 | 48 |
| | | | | | | |
| 54 | 58 | 53 | 49 | 39 | 35 | 34 |
| 46 | 42 | 47 | 51 | 61 | 65 | 66 |

## World Locations

### World Headquarters
P.O. Box 57
Pittsburgh, Pennsylvania 15230

### Heinz U.S.A. Division
Established 1869
Pittsburgh, Pennsylvania
Raymond F. Good, President
Factories: Bowling Green, Ohio/Chambersburg, Pennsylvania/Fremont, Ohio/Henderson, North Carolina/Holland, Michigan/Isleton, California/Lakeview, Michigan/Muscatine, Iowa/Pittsburgh, Pennsylvania/Salem, New Jersey/Schaumburg, Illinois/Stockton, California/Tracy, California/Winchester, Virginia

### Star-Kist Foods, Inc.
Acquired 1963
Terminal Island, California
Joseph J. Bogdanovich, President
Factories: Terminal Island, California/Muscatine, Iowa/Perham, Minnesota/Coishco, Peru
Cold Storage Stations: Senegal/Tema, Ghana/Republic of the Congo/Paita, Peru/Papua, New Guinea/Tahiti/New Zealand

### Star-Kist Caribe, Inc.
Acquired 1963
Factory: Mayaguez, Puerto Rico

### Star-Kist Samoa, Inc.
Acquired 1963
Factory: Pago Pago, American Samoa

### Star-Kist International S.A.
Acquired 1963
Panama City, Panama

### Starkan, Inc.
Established 1968
Factory: Mayaguez, Puerto Rico

### Ore-Ida Foods, Inc.
Acquired 1965
Boise, Idaho
Robert K. Pedersen, President
Factories: Ontario, Oregon/Burley, Idaho/Greenville, Michigan

### H. J. Heinz Company Australia Ltd.
Established 1935
Dandenong, Victoria
Ernest W. Barr, Managing Director
Factories: Dandenong, Victoria/Greenseas Division—Eden, New South Wales

### Epicure Continental Food Company Pty. Ltd.
Acquired 1972
Moorabbin, Victoria
H. H. Huppert, Managing Director

### The Stanley Wine Company Pty. Ltd.
Acquired 1971
Clare, South Australia
K. H. Knappstein, Managing Director

### Baltic Merchandising Pty. Ltd.
Acquired 1973
Moorabbin, Victoria
Ernest W. Barr, Director

### H. J. Heinz Company of Canada Ltd.
Established 1909
Toronto, Ontario
Albert Forsyth, President
Factory: Leamington, Ontario

### Galco Food Products Ltd.
Acquired 1971
Toronto, Ontario
H. Gallinger, President

### Nichiro Heinz Company Ltd.
Established 1961
Tokyo, Japan
Kazuo Asai, President
Factory: Kurihama

### Latin America Area Office
Mexico City, Mexico
Manuel Albarran, Area Director

Alimentos Heinz C. A.

Established 1959
Valencia, Carabobo, Venezuela
Louis J. Pacini, President
Factory: San Joaquin, Carabobo

H. J. Heinz Company Ltd.

Established 1905
Hayes, Middlesex, England
John A. Connell, Deputy Chairman
Charles F. Lowe, Managing Director
Factories: Harlesden (London)/Kitt Green/Standish

W. Darlington and Sons Ltd.

Acquired 1969
Rustington, Sussex, England
George A. Corrin, Managing Director
Robert G. Darlington, Chairman
Farms: Rustington/Horley/Camberley/Poling/Angmering

Pickerings Foods Ltd.

Acquired 1969
Hayes, Middlesex, England
J. G. Dudlyke, Managing Director
Management control of factories at:
Didcot, Berks (The Samor Pure Foods Ltd.)
Halnaker, Chichester (J. G. Read Poultry Ltd.)
Coleraine, Northern Ireland (Pickerings Foods Ltd.)

Heinz-Erin Ltd.

Established 1967
Dublin, Ireland
Charles F. Lowe, Managing Director
Brendan G. Doyle, Managing Director

Heinz Sagima (Maroc)

Established 1974
Rabat, Morocco
Abderrahim Cherkaoui, President

Heinz-Perrier S.A.

Established 1973
Paris, France
Jean S. Menasche, Chairman

Central Europe Area Office
H. J. Heinz S.A./N.V.

Brussels, Belgium
John H. Newhall, Director

H. J. Heinz B.V.

Acquired 1958
Elst, Gelderland, The Netherlands
John H. Newhall, Acting Managing Director
Factory: Elst, Gelderland

H. J. Heinz Company (Belgium) S.A./N.V.

Established 1947
Brussels, Belgium
S. Lindmark, General Manager-Marketing and Sales

H. J. Heinz GmbH

Established 1970
Düsseldorf, Germany
S. A. Launder, General Manager-Marketing and Sales, Germany

Industrias de Alimentacao Limitada

Acquired 1965
Lisbon, Portugal
Jorge Giralt, General Manager
Factory: Benavente

Plasmon S.p.A.

Acquired 1963
Milan, Italy
Dr. Nicolo Pellizzari, Managing Director
Factories: Milan/Latina

Diet-Erba S.p.A.

Acquired 1974
Milan, Italy
Dr. Nicolo Pellizzari, Administrator
Factory: Ozzano Taro

## Board of Directors

Henry J. Heinz II
*Chairman*
*Director since 1936*

R. Burt Gookin
*Vice Chairman and Chief Executive Officer*
*Director since 1959*

Anthony J. F. O'Reilly
*President and Chief Operating Officer*
*Director since 1971*

Franklin E. Agnew
*Senior Vice President*
*Director since 1971*

Joseph J. Bogdanovich
*Senior Vice President; President, Star-Kist Foods, Inc.*
*Director since 1963*

Frank M. Brettholle
*Senior Vice President-Finance*
*Director since 1973*

John A. Connell
*Senior Vice President; Deputy Chairman, H. J. Heinz Company Ltd.*
*Director since 1968*

Vira I. Heinz
*Civic Leader; Trustee, Howard Heinz Endowment*
*Director since 1962*

Lewis A. Lapham*
*Director, Various Corporations*
*Director since 1957*

John A. Mayer
*Director, Various Corporations*
*Director since 1959*

Donald C McVay
*Senior Vice President-Corporate Development*
*Director since 1968*

John T. Ryan, Jr.*
*Chairman of the Board, Mine Safety Appliances Company, Pittsburgh, Pennsylvania*
*Mine safety equipment*
*Director since 1961*

William P. Snyder III*
*President, The Shenango Furnace Company, Pittsburgh, Pennsylvania*
*Pig iron and ingot molds*
*Director since 1961*

S. Donald Wiley
*Senior Vice President, Secretary and General Counsel*
*Director since 1972*

**Member of the Audit Committee*

## Officers

Henry J. Heinz II*
*Chairman of the Board*

R. Burt Gookin*
*Vice Chairman and Chief Executive Officer*

Anthony J. F. O'Reilly*
*President and Chief Operating Officer*

Franklin E. Agnew*
*Senior Vice President*

Joseph J. Bogdanovich
*Senior Vice President*

Frank M. Brettholle*
*Senior Vice President-Finance*

John A. Connell
*Senior Vice President*

J. W. Connolly
*Treasurer*

David A. Lattanzio
*Corporate Controller*

Donald C McVay*
*Senior Vice President-Corporate Development*

S. Donald Wiley*
*Senior Vice President, Secretary and General Counsel*

**Member of the Executive Committee*

## Corporate Data

### Transfer Agent, Registrar and Disbursing Agent

Mellon Bank N.A.
Pittsburgh, Pennsylvania

### Auditors

Peat, Marwick, Mitchell & Co.
Pittsburgh, Pennsylvania

### Stock Listing

New York Stock Exchange
Ticker Symbol HNZ



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